

HE

743

U6D92

HE
743
U6D92

Cornell University Library

BOUGHT WITH THE INCOME
FROM THE
SAGE ENDOWMENT FUND
THE GIFT OF
Henry W. Sage
1891

A. 218481.

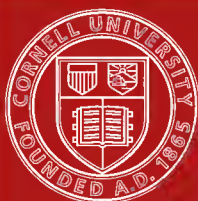
9/12/07.

Cornell University Library
HE743.U6 D92

Ship subsidies;



3 1924 032 482 576
olin



Cornell University
Library

The original of this book is in
the Cornell University Library.

There are no known copyright restrictions in
the United States on the use of the text.

<http://www.archive.org/details/cu31924032482576>

**Hart, Schaffner & Marx
Prize Economic Essays**

THE CAUSE AND EXTENT OF THE RECENT INDUSTRIAL PROGRESS OF GERMANY. By Earl D. Howard.

THE CAUSES OF THE PANIC OF 1893. By William J. Lauck.

INDUSTRIAL EDUCATION. By Harlow Stafford Person, Ph.D.

FEDERAL REGULATION OF RAILWAY RATES. By Albert N. Merritt, Ph.D.

SHIP SUBSIDIES. An Economic Study of the Policy of Subsidizing Merchant Marines. By Walter T. Dunmore.

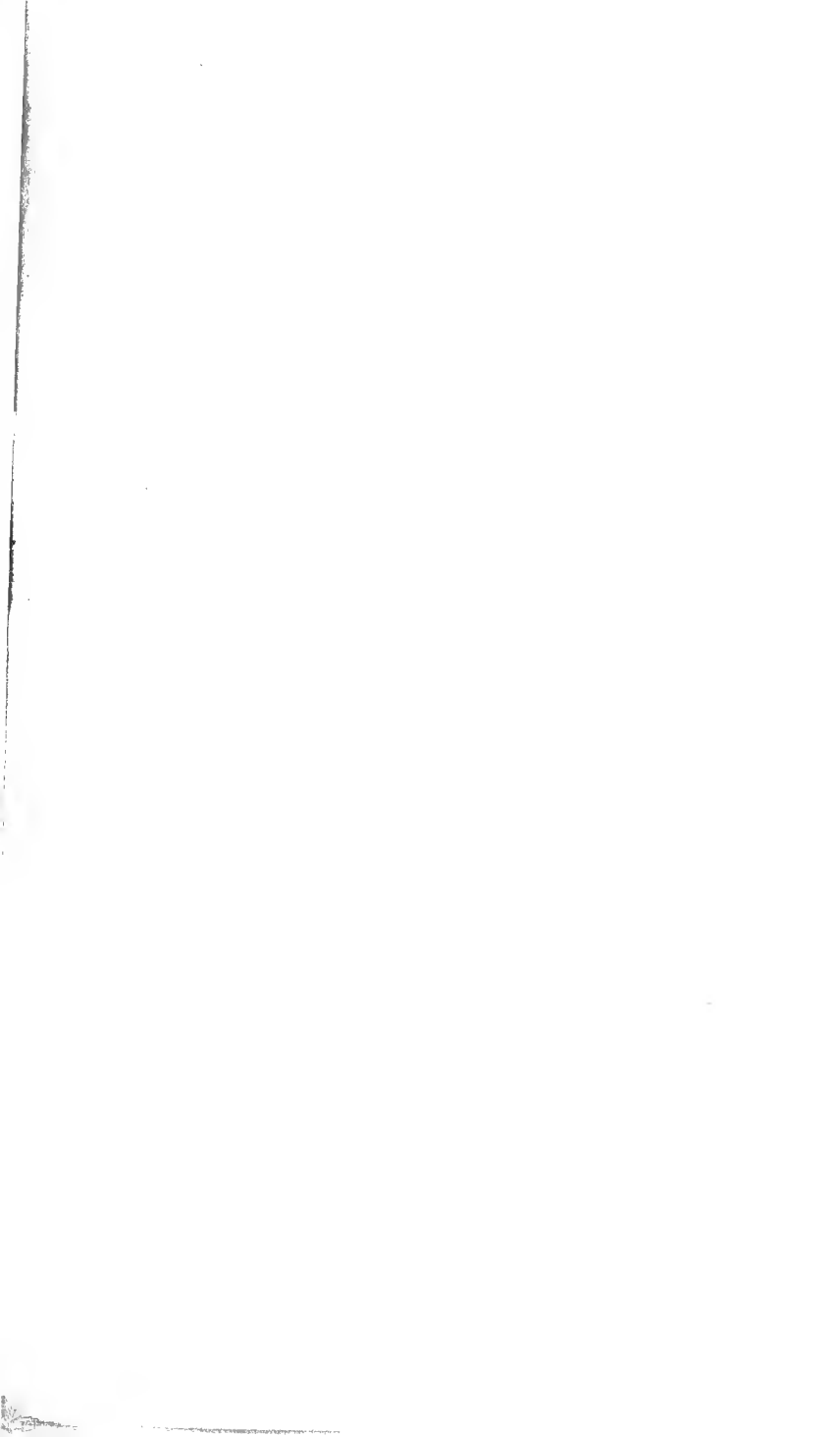
Each, large crown 8vo, \$1.00 *net*. Postage 10 cents

HOUGHTON, MIFFLIN & CO.
BOSTON AND NEW YORK

Hart, Schaffner & Marx Prize Essays

V

SHIP SUBSIDIES



SHIP SUBSIDIES

AN ECONOMIC STUDY OF THE POLICY
OF SUBSIDIZING MERCHANT MARINES

BY

WALTER T. DUNMORE

INSTRUCTOR IN THE LAW SCHOOL OF WESTERN
RESERVE UNIVERSITY



BOSTON AND NEW YORK
HOUGHTON, MIFFLIN AND COMPANY
The Riverside Press, Cambridge
1907

→.y

A. 218481

COPYRIGHT 1907 BY HART, SCHAFFNER & MARX

ALL RIGHTS RESERVED

Published November 1907

PREFACE

THIS series of books owes its existence to the generosity of Messrs. Hart, Schaffner, and Marx of Chicago, who have shown a special interest in trying to draw the attention of American youth to the study of economic and commercial subjects, and to encourage the best thinking of the country to investigate the problems which vitally affect the business world of to-day. For this purpose they have delegated to the undersigned Committee the task of selecting topics, making all announcements, and awarding prizes annually for those who wish to compete.

In the year ending June 1, 1906, the following topics were assigned:

1. To what extent, and by what administrative body, should the public attempt to control railway rates in interstate commerce?
2. A just and practicable method of taxing railway property.
3. Will the present policy of the labor unions in dealing with non-union men, and the "closed shop," further the interests of the workingmen?
4. Should ship subsidies be offered by the government of the United States?
5. An examination into the economic causes of large fortunes in this country.

6. The influence of credit on the level of prices.

7. The cattle industry in its relation to the ranchman, feeder, packer, railway, and consumer.

8. Should the government seek to control or regulate the use of mines of coal, iron, or other raw materials, whose supply may become the subject of monopoly?

9. What provision can be made for workingmen to avoid the economic insecurity said to accompany the modern wage-system?

A First Prize of One Thousand Dollars, and a Second Prize of Five Hundred Dollars, in cash, were offered for the best studies presented by Class A, composed exclusively of all persons who had received the bachelor's degree from an American college in 1894 or thereafter.

The present volume was awarded the second prize.

PROFESSOR J. LAURENCE LAUGHLIN,
University of Chicago, Chairman.

PROFESSOR J. B. CLARK,
Columbia University.

PROFESSOR HENRY C. ADAMS,
University of Michigan.

HORACE WHITE, ESQ.,
New York City.

HON. CARROLL D. WRIGHT,
Clark College.

CONTENTS

BIBLIOGRAPHY, xi.

I. INTRODUCTION, 1-5.

- A. Use of the term "subsidy," 1, 2.
- B. Purpose of the discussion, 2, 3.
- C. Difficulties surrounding consideration, 3-5.
 - 1. Views often prejudiced, 3, 4.
 - 2. The question an international one, 4.
 - 3. Existing conditions not natural, 4, 5.

II. REVIEW OF AMERICAN SHIPPING, 6-26.

- A. Tonnage carried in American bottoms, 6-8.
 - 1. In coastwise trade, 6, 7.
 - 2. In foreign trade, 7, 8.
- B. Shipping legislation, 9-23.
 - 1. As to coastwise trade, 9-11.
 - 2. As to foreign trade, 11-23.
- C. Effect of legislation upon tonnage, 23-26.
 - 1. In coastwise trade, 23.
 - 2. In foreign trade, 24-26.

III. PRESENT STATUS OF AMERICAN SHIPPING, 27-57.

- A. In coastwise trade, 27-30.
 - 1. Tonnage, 27, 28.
 - 2. Efficiency, 28, 29.
 - 3. Reasons for growth, 29, 30.
 - a. Growth in trade, 29.
 - b. Monopoly, 29, 30.
- B. In foreign trade, 30-57.
 - 1. Tonnage, 30-32.
 - 2. Efficiency, 32.
 - 3. Reasons for existing conditions, 32-57.
 - a. Change from wooden to iron ships, 33-35.
 - (1) Our advantage with wood, 33, 34.

- (2) England's advantage with iron, 34, 35.
 - (3) Lloyds' discrimination against wood, 35.
 - b. Civil War, 36, 37.
 - c. Higher returns elsewhere, 37-41.
 - (1) On labor, 38, 39.
 - (2) On capital, 39-41.
 - (a) In railroads, 39, 40.
 - (b) In manufacturing, 40.
 - (c) In trade generally, 40, 41.
 - d. American Protective Tariff, 41-47.
 - (1) Effect on price of materials, 41-44.
 - (2) Effect on securing cargo, 44, 45.
 - (3) Effect on wages of seamen, 45-47.
 - e. High wages, 47-54.
 - (1) In shipbuilding, 47-50.
 - (2) In ship operating, 50-54.
 - f. American navigation laws, 54-57.
 - (1) American registry law, 54, 55.
 - (2) Compelling hire of American officers, 55.
 - (3) Food scale, 56.
 - (4) Release of sailors, 56, 57.
- IV. THE REMEDY, 58-103.
- A. Why try to remedy, 58-70.
 - 1. Commercial interests, 58-67.
 - a. Freight money, 58-60.
 - b. Increase of commerce, 60-64.
 - c. Carriage during wars abroad, 64-67.
 - 2. National defense, 67-70.
 - a. Sailors for navy, 67, 68.
 - b. Auxiliary ships, 68-70.
 - B. Remedies suggested, 70-103.
 - 1. Free ships, 70-75.
 - a. Policy considered, 70-73.
 - b. Objections, 73-75.
 - (1) Would injure American shipbuilding, 73, 74.
 - (2) Would not build up shipping, 74, 75.
 - 2. General discriminating duties, 76-79.
 - a. Policy considered, 76, 77.

- b. Objections, 77-79.
 - (1) Probability of retaliation, 77, 78.
 - (2) Would operate unequally, 78, 79.
 - (3) Many imports not dutiable, 79.
- 3. Discriminating duties in indirect trade, 80, 81.
 - a. Policy considered, 80.
 - b. Objections, 80, 81.
 - (1) Probability of retaliation, 80, 81.
 - (2) Ships would be transferred, 81.
- 4. Naval subventions, 81, 82.
 - a. Policy considered, 81, 82.
 - b. Objections, 82.
 - (1) Class legislation, 82.
 - (2) Could not build up general carrying trade, 82.
- 5. Subsidies, 83-103.
 - a. Policy considered, 83.
 - b. Objections, 84-102.
 - (1) World's experience does not warrant, 84-95.
 - (a) Great Britain's policy, 84-87.
 - (b) Germany's policy, 87-89.
 - (c) France's experience, 89-92.
 - (d) Experience of the United States, 92-95.
 - (2) Unavailing because not permanent, 95-97.
 - (3) Wrong on principle, 97-99.
 - (4) High cost, 99-102.
 - c. Conclusion adverse to subsidies, 102, 103.
- V. POLICY RECOMMENDED, 104-119.
 - A. Free ships in foreign trade, 104-106.
 - B. Free building materials, 106, 107.
 - C. Intelligent application of the policy of the law of 1891, 107, 108.
 - D. Discriminating duties in indirect trade, 109-114.
 - E. Measures proposed satisfactory, 114-119.
 - 1. Liberal to shipbuilder, 114-116.
 - a. Gives him monopoly in coastwise trade, 114.

CONTENTS

- b. Gives him monopoly in vessels receiving subventions, 114.
 - c. Enables him to buy cheaper materials, 114, 115.
 - d. Would give him large repairs, 115, 116.
 - e. Encourages shipowning habit, 116.
- 2. Fair to sailors 116, 117.
 - a. Gives Americans employment as officers, 116, 117.
 - b. Gives Americans employment on vessels under contract, 117.
- 3. Would materially aid American shipowner, 118, 119.
 - a. By enabling him to buy cheaply, 118.
 - b. By giving him benefit of subventions, 118.
 - c. By giving him preference in obtaining home cargo, 118, 119.

BIBLIOGRAPHY

BOOKS AND ARTICLES CONSULTED

- AMERICAN MERCHANT MARINE, THE. Winthrop L. Marvin.
AMERICAN NAVIGATION. W. W. Bates.
BRITISH AND AMERICAN SHIPPING. Benjamin Taylor.
Nineteenth Century, 52, 19.
BRITISH SHIPPING SUBSIDIES. J. W. Root. *Atlantic Monthly*,
85, 387.
BRITISH SUBSIDIES AND AMERICAN SHIPPING. Charles H.
Cramp. *North American Review*, 175, 829.
DECAY OF OUR OCEAN MERCANTILE MARINE: ITS CAUSE
AND CURE. David A. Wells.
DEVELOPMENT OF BRITISH SHIPPING, THE. Benjamin
Taylor. *Forum*, 30, 463.
DEVELOPMENT OF RUSSIA'S MERCHANT MARINE. J. Charles
Roux. *Review of Reviews*, 30, 612.
FUTURE OF AMERICAN SHIPPING, THE. Arthur Goodrich.
World's Work, 4, 2191.
GAP IN AMERICA'S ARMOR, THE. Senator William P. Frye.
National Magazine, 16, 337.
GROWTH OF AMERICAN MERCHANT MARINE. *Scientific
American*, 90, 454.
HISTORY OF SHIPPING SUBSIDIES. Royal Meeker.
HOW TO PROTECT AMERICAN SHIPPING. *Gunton*, 25, 163.
HOW TO RESTORE AMERICAN SHIPPING. Nelson Dingley, Jr.
North American Review, 148, 687.
MERCHANT MARINE, THE. Speech by Mr. Rainey. *Congressional Record*, volume 38, part 5, page 4310.
MERCHANT MARINE COMMISSION, THE. Winthrop L. Marvin.
Review of Reviews, 30, 675.
MERCHANT MARINE INVESTIGATION, THE. James W.
Garner. *North American Review*, 180, 360.

MERCHANT SEAMAN AND THE SUBSIDY BILL. Walter Mac-
arthur. *Arena*, 25, 149.

MISREPRESENTATION OF THE SHIPPING CRISIS. W. W. Bates.
Gunton, 27, 571.

NATIONAL PROBLEM, A. M. A. Hanna. *Independent*, 53, 10.

NEED OF AMERICAN SHIPPING, THE. *Nation*, 78, 285.

OBJECTIONS TO SHIP SUBSIDY BILL. John DeWitt Warner.
Independent, 53, 185.

OPPOSITION TO SHIP SUBSIDY. *Nation*, 73, 294.

OUR NEGLECTED SHIPPING. Alexander R. Smith. *North* ✓
American Review, 163, 470.

POLICY OF STEAMSHIP SUBSIDIES, THE. Arthur T. Hadley.
Review of Reviews, 21, 325.

PRESENT STATUS OF AMERICAN SHIPBUILDING. *Scientific*
American, 89, 115.

PROBLEM OF AN AMERICAN MARINE. W. W. Bates. *Forum*,
28, 81.

PROBLEM OF AN AMERICAN MARINE, — A REPLY. Alexander
R. Smith. *Forum*, 28, 297.

PROTECTED AMERICAN SHIPPING NEEDED, A. *Overland*
Monthly, 34, 401.

REPORT OF MERCHANT MARINE COMMISSION. *Senate*
Reports, No. 2755, volumes 2, 3, and 4, 58th Congress, 3d
Session, 1904-05.

REPORT (SUPPLEMENTAL) OF MERCHANT MARINE COM-
MISSION. Filed by C. H. Grosvenor, February 24, 1906.

REPORT OF THE SELECT COMMITTEE OF THE HOUSE OF
COMMONS ON STEAMSHIP SUBSIDIES. *Journal Political*
Economy, 11, 466.

REPORTS, CONGRESSIONAL. 57th and 58th Congresses.

SHALL WE HAVE FREE SHIPS? Captain John Codman.
North American Review, 154, 353.

SHIP-BUILDING vs. SHIP-OWNING. Captain John Codman.
North American Review, 142, 478.

SHIPPING AND SUBSIDIES. Benjamin Taylor. *North Ameri-
can Review*, 176, 490.

SHIPPING SUBSIDIES. Frank L. McVey. *Journal Political*
Economy, 9, 24.

SHIPPING SUBSIDIES. *Nation*, 70, 64.

- SHIP-SUBSIDY HUMBUG, THE. *Nation*, 72, 5.
- SHIPPING SUBSIDIES PLOT, THE. *Nation*, 69, 104.
- SHIP-SUBSIDY QUESTION IN ENGLAND, THE. *Nation*, 76, 144.
- SHIP-SUBSIDIES AND BOUNTIES. Alexander R. Smith.
Gunton, 19, 333.
- SHIPPING SUBSIDIES AND BOUNTIES. Captain John Codman.
- SHIPPING SUBSIDY BILL, THE. Eugene T. Chamberlain.
Forum, 29, 532.
- SHIPPING TRUST, A. *Nation*, 73, 410.
- SHOULD OUR MARINE BE SUBSIDIZED? John C. Watson.
Arena, 23, 606.
- SIMPLE SOLUTION OF THE SHIPPING QUESTION, A. Edward C. Plummer. *North American Review*, 166, 634.
- SUBSTITUTES FOR SHIP SUBSIDIES. Louis Windmüller.
North American Review, 172, 113.
- SUBSTITUTES FOR SHIP SUBSIDIES, — A REPLY. Alexander R. Smith. *North American Review*, 172, 285.
- STATESMAN'S YEAR BOOK, 1905-06.
- UNWISE TAXATION ON SHIPPING. Charles E. Naylor.
Overland Monthly, 2d s., 25, 567.

ARRANGED ACCORDING TO AUTHORS

- BATES, W. W. American Navigation.
- BATES, W. W. Misrepresentation of the Shipping Crisis.
Gunton, 27, 571.
- BATES, W. W. The Problem of an American Marine.
Forum, 28, 81.
- CHAMBERLAIN, EUGENE T. The Shipping Subsidy Bill.
Forum, 29, 532.
- CODMAN, CAPTAIN JOHN. Shall we have Free Ships?
North American Review, 154, 353.
- CODMAN, CAPTAIN JOHN. Ship-building vs. Ship-owning.
North American Review, 142, 478.
- CODMAN, CAPTAIN JOHN. Shipping Subsidies and Bounties.
- CRAMP, CHARLES H. British Subsidies and American Shipping. *North American Review*, 175, 829.

- DINGLEY, NELSON, JR. How to restore American Shipping. *North American Review*, 148, 687.
- EDITOR, THE. Growth of American Merchant Marine. *Scientific American*, 90, 454.
- EDITOR, THE. How to protect American Shipping. *Gunton*, 25, 163.
- EDITOR, THE. Need of American Shipping. *Nation*, 78, 285.
- EDITOR, THE. Opposition to Ship Subsidy. *Nation*, 73, 294.
- EDITOR, THE. Present Status of American Shipbuilding. *Scientific American*, 89, 115.
- EDITOR, THE. Report of the Select Committee of the House of Commons on Steamship Subsidies. *Journal Political Economy*, 11, 466.
- EDITOR, THE. Shipping Subsidies. *Nation*, 70, 64.
- EDITOR, THE. Ship Subsidies Abroad. *Outlook*, 67, 387.
- EDITOR, THE. The Ship-subsidy Humbug. *Nation*, 72, 5.
- EDITOR, THE. The Shipping-subsidies Plot. *Nation*, 69, 104.
- EDITOR, THE. The Ship-subsidy Question in England. *Nation*, 76, 144.
- FRYE, SENATOR WILLIAM P. The Gap in America's Armor. *National Magazine*, 16, 337.
- GARNER, JAMES W. The Merchant Marine Investigation. *North American Review*, 180, 360.
- GOODRICH, ARTHUR. The Future of American Shipping. *World's Work*, 4, 2191.
- HADLEY, ARTHUR T. The Policy of Steamship Subsidies. *Review of Reviews*, 21, 325.
- HANNA, M. A. A National Problem. *Independent*, 53, 10.
- MACARTHUR, WALTER. The Merchant Seaman and the Subsidy Bill. *Arena*, 25, 149.
- MARVIN, WINTHROP L. The American Merchant Marine.
- MARVIN, WINTHROP L., Secretary of Commission. The Merchant Marine Commission. *Review of Reviews*, 30, 675.
- MEEKER, ROYAL. History of Shipping Subsidies.
- MCVEY, FRANK L. Shipping Subsidies. *Journal Political Economy*, 9, 24.
- NAYLOR, CHARLES E. Unwise Taxation on Shipping. *Overland Monthly*, 2d s., 28, 567.

- PLUMMER, EDWARD C. A Simple Solution of the Shipping Question. *North American Review*, 166, 634.
- RAINEY, MR. Speech on Merchant Marine. *Congressional Record*, volume 38, part 5, page 4310.
- ROOT, J. W. British Shipping Subsidies. *Atlantic Monthly*, 85, 387.
- ROUX, J. CHARLES. The Development of Russia's Marine. *Review of Reviews*, 30, 612.
- SMITH, ALEXANDER R. Our Neglected Shipping. *North American Review*, 163, 470.
- SMITH, ALEXANDER R. A Protected American Shipping Needed. *Overland Monthly*, 34, 401.
- SMITH, ALEXANDER R. The Problem of the American Marine. A Reply. *Forum*, 28, 297.
- SMITH, ALEXANDER R. Ship-subsidies and Bounties. *Gunton*, 19, 333.
- SMITH, ALEXANDER R. Substitutes for Ship-subsidies. *North American Review*, 172, 285.
- TAYLOR, BENJAMIN. British-American Shipping. *Nineteenth Century*, 52, 19.
- TAYLOR, BENJAMIN. The Development of British Shipping. *Forum*, 30, 463.
- TAYLOR, BENJAMIN. Shipping and Subsidies. *North American Review*, 176, 490.
- WARNER, JOHN DEWITT. The Objection to the Ship Subsidy Bill. *Independent*, 53, 185.
- WATSON, JOHN C. Should our Merchant Marine be Subsidized? *Arena*, 23, 606.
- WELLS, DAVID A. The Decay of our Ocean Mercantile Marine: its Cause and Cure.
- WINDMÜLLER, LOUIS. Substitutes for Ship Subsidies. *North American Review*, 172, 113.

COMMENTS ON AUTHORITIES

BATES, W. W. — W. W. Bates, formerly United States Commissioner of Navigation and an able writer on shipping questions, has devoted a great amount of study to ascertain how best to encourage the American Merchant Marine. His book, "American Navigation," is of considerable value historically. Mr. Bates is a decidedly ardent advocate of general discriminating duties, but, although undoubtedly disinterested in his beliefs, he fails to see merit in any plan other than his own, and at the same time frequently overlooks almost entirely the difficulties in the way of his policy.

CODMAN, CAPTAIN JOHN. — Captain Codman is an earnest advocate of the policy of free ships. He is candid and disinterested in his convictions. Captain Codman is, however, inclined to deal with the shipping question from a theoretical rather than from a practical standpoint.

CRAMP, CHARLES H. — Mr. Cramp has been an unwavering supporter of ship subsidies. Because of his large shipbuilding interests, his opinion has frequently been sought to gain the benefit of his practical knowledge. It is but natural that Mr. Cramp should favor subsidies. He is, however, frequently far from logical in giving reasons for the faith that is in him.

MARVIN, WINTHROP L. — Mr. Marvin has written a very valuable and interesting work in "The American Merchant Marine." He is one of the fairest of all the writers who have considered the shipping question from a practical standpoint. Mr. Marvin believes that the United States should subsidize, although stating that "subsidies are potent but not omnipotent."

MCVEY, FRANK L. — Mr. McVey has prepared an excellent discussion on the ship-subsidy question. He does not

believe in subsidies, and believes that growth will come when the country is ready for it. Mr. McVey suggests no present remedy.

MEEKER, ROYAL. — Mr. Meeker in his "History of Shipping Subsidies" has given a thorough and able historical treatment. His conclusion is against ship subsidies. Mr. Meeker is fair and logical, but does not attempt to provide a way for building up our marine.

MERCHANT MARINE COMMISSION. — This Commission, composed of five Senators and five Representatives, was appointed to investigate the shipping question under an Act of Congress passed April 28, 1904, at the suggestion of President Roosevelt. The Commission, consisting of members of both political parties, visited all important ports on the Atlantic, the Pacific, and the Great Lakes, and examined a great number of shippers, shipowners, shipbuilders, sailors, and business men. The Commission submitted its findings, with the testimony taken, in a three-volume report. All the members of the Commission advocated some active measures to build up the American merchant marine. The majority report, signed by four Senators and three Representatives, advocated naval subventions to mail vessels, subsidies and tonnage duties. The minority favored discriminating duties.

This report, although influenced in a measure by political views, is based upon evidence taken, and is valuable because giving the views of many having so practical a knowledge of the question to be solved.

WELLS, DAVID A. — Mr. Wells is strongly opposed to subsidies. He carries his argument out logically and favors absolutely free trade. He treats the subject theoretically, from the point of view of the economist who refuses to sacrifice anything in order to arrive at a practical solution as conditions exist to-day.

GENERALLY. — The great majority of persons who have written or spoken on the shipping question have favored taking some steps to remedy existing conditions.

Economists have almost universally condemned ship-subsidies, and have favored free ships as a solution.

Shipbuilders and shipowners naturally are in favor of direct subsidies. Subsidies have also found many supporters among Republican leaders, while free ships have been urged by many Democrats.

The public generally has looked with suspicion upon any subsidy plan as a further concession to special interests. Discriminating duties have therefore aroused less public hostility, and a considerable number of the editorials in newspaper and periodical literature have favored this policy.

SHIP SUBSIDIES

SHIP SUBSIDIES

I. INTRODUCTION

A. USE OF THE TERM "SUBSIDY"

THE term "subsidy" is defined in Webster's Dictionary as "A grant from the government to a private person or company to assist in the establishment or support of an enterprise deemed advantageous to the public." A shipping subsidy offered by the government of the United States would be a direct grant from the national treasury in the form of a gift or bounty to encourage and build up the shipping industry, and in no sense a remuneration for services rendered. Very frequently the term ship subsidy has been applied by writers to payment made by a government out of the treasury for services in carrying the mails or for holding a vessel in readiness for use as an adjunct to the navy. A failure to distinguish clearly between a gift out of the public treasury to shipowners and a payment for service rendered is the basis for many erroneous arguments from analogy on the ship-subsidy question. It is, therefore, important to remember that a ship subsidy, as considered in this

discussion, is a gift in the form of a bounty, and has no relation to services directly rendered to the giver by the recipient.

B. PURPOSE OF THE DISCUSSION

For the last quarter of a century the subsidy question has been under consideration by debating societies, chambers of commerce, economists and legislators, so that it would seem that some answer satisfactory to a reasonable majority might have been given. Such, however, is far from being the case, and the answers to the question are still as various and conflicting, and at the same time as positively given, as though it were being considered for the first time, and as though the Library of Congress did not contain two thousand books and pamphlets written by persons who severally conceived that they had furnished the one perfectly obvious and only rational solution. Since a subsidy measure is now¹ pending before the Federal Congress, framed in accord with the majority report of the Merchant Marine Commission appointed at the suggestion of President Roosevelt, the solution of the problem presented is one of prime importance to-day. Congress is dealing with a great problem, and any decision favoring subsidies which it may reach must of necessity involve

¹ March, 1906.

the expenditure of a large amount of money, and the inauguration of a policy which from the nature of the end sought cannot be temporary, but must extend over a considerable number of years, if anything of value is to be accomplished.

It may be of value, therefore, to consider the question from an unprejudiced, non-partisan standpoint, and to endeavor to decide what is the best policy from the point of view of the commercial and economic interests of the United States; and also what is best, considering the question in its bearing on the national defense.

C. DIFFICULTIES SURROUNDING CONSIDERATION

1. *Views often Prejudiced*

Naturally, a number of difficulties are at once met with in the investigation of the conditions existing in the American merchant marine, and in the endeavor to provide a remedy which shall satisfactorily meet those conditions. A very large part of the testimony available has of course been given by ship-owners, shipbuilders, or those in some way pecuniarily interested in a flourishing condition of shipping interests. Those who are devoting their lives to shipping and investing their capital therein are the ones to whom

Congress has most frequently gone to obtain evidence, and while this evidence is not purposely falsified, it is given with the welfare of the shipping interests always foremost in the minds of the witnesses. When the question has been considered in Congress the debates have ordinarily been inspired with political interests. It would be inconsistent for the legislator elected on a protective tariff platform to deny all protection to ships. The statistics there used have been selected with a view to upholding the position of the debater, and very frequently the same statistics have been quoted as the bases of exactly opposite conclusions.

2. The Question an International One

Solution is more difficult by reason of the fact that the question is an international one. The United States foreign shipping cannot be dealt with as a local problem. Any measure which is enacted must directly affect other nations dealing with us, and that effect and how other nations will conduct themselves must be considered before any step can be taken.

3. Existing Conditions not Natural

What is the source of by far the greatest difficulty, however, is the fact that economic

conditions affecting the merchant marine in the United States are not natural, but are in large measure the result of legislative action. One cannot take a natural or ideal situation and with that as a basis argue on purely economic grounds. By so doing he may reach a conclusion which is the logical result of his premises, but at the same time may in no way advance a solution which is of practical value. The writer believes that certain conditions should be taken as they are found, even although they may be the result of measures which are not approved of personally, — unless there is some chance of securing the repeal of those measures. The protective tariff system has so firmly fixed itself in the policy of our government that no remedy of the shipping problem, which depends upon the entire abolition of the protective tariff system to give a return cargo to the American vessel, will be adopted or even receive the serious consideration of Congress. We may and should have radical tariff revision, but as a practical problem to-day we must seek the remedy which is to rehabilitate American shipping, if any remedy at all is to be given, in some manner other than by an entire repeal of our present tariff regulations.

II. REVIEW OF AMERICAN SHIPPING

A. TONNAGE CARRIED IN AMERICAN BOTTOMS

1. *In Coastwise Trade*

To get a proper understanding of the shipping question it is essential to take a brief view of the history of American shipping.

The following tables taken from the Report of the United States Commissioner of Navigation will serve to give an idea of the size of the American merchant marine at various times, as compared with the necessity for tonnage to supply an ever increasing demand:—

YEAR	COASTWISE TONNAGE	YEAR	COASTWISE TONNAGE	YEAR	COASTWISE TONNAGE
1789	68,607	1830	496,640	1866	2,689,152
1791	106,494	1835	769,795	1870	2,595,328
1795	164,796	1840	1,144,664	1875	3,169,687
1800	245,295	1845	1,190,898	1880	2,584,418
1805	301,366	1850	1,755,797	1885	2,822,598
1810	371,114	1855	2,491,108	1890	3,330,377
1812	443,181	1860	2,599,319	1895	3,644,276
1813	433,405	1861	2,657,293	1900	4,195,875
1814	425,714	1862	2,578,546	1901	4,488,421
1815	435,067	1863	2,918,614	1903	5,185,690
1820	539,080	1864	3,204,227	1905	5,441,688
1825	587,273	1865	3,353,657		

The statistics of our coastwise tonnage thus show a continuous growth, supplying

the steadily increasing demand exactly as would be expected considering the increasing business of the country.

2. In Foreign Trade

As compared with the table showing the American tonnage engaged during our history in the coastwise, it is interesting to note the tonnage engaged in corresponding years in the foreign trade. The statistics of foreign commerce are taken from "The American Merchant Marine," by Winthrop L. Marvin.

YEAR	FOREIGN TRADE SHIPPING	PROPORTION OF OUR CARRIAGE IN FOR- EIGN TRADE		COMMERCE OF UNITED STATES
	<i>Tons</i>	<i>Imports %</i>	<i>Exports %</i>	<i>Dollars</i>
1789	123,893	17.5	30.	No record
1791	363,110	58.	52.	48,212,041
1795	529,471	92.	88.	117,746,140
1800	657,107	91.	87.	162,224,548
1805	744,224	93.	89.	216,166,021
1810	981,019	93.	90.	152,157,970
1812	758,636	85.	80.	115,557,236
1813	672,700	71.	65.	49,861,017
1814	674,633	58.	51.	19,892,027
1815	845,295	77.	71.	165,599,027
1820	583,657	90.	89.	144,141,669
1825	665,409	95.2	89.2	180,927,643
1830	537,563	93.6	86.3	134,391,691
1835	788,173	90.2	77.3	251,980,097
1840	762,838	86.6	79.9	221,927,638
1845	904,476	87.3	75.8	219,224,433

SHIP SUBSIDIES

YEAR	FOREIGN TRADE SHIPPING	PROPORTION OF OUR CARRIAGE IN FOR- EIGN TRADE		COMMERCE OF UNITED STATES
		<i>Tons</i>	<i>Imports % Exports %</i>	
1850	1,439,694	77.8	65.5	317,885,252
1855	2,348,358	77.3	73.8	476,718,211
1860	2,379,396	63.	69.7	687,192,176
1861	2,496,894	60.	72.1	508,864,375
1862	2,173,537	44.8	54.5	380,027,178
1863	1,926,886	43.3	40.	447,300,262
1864	1,486,749	24.6	30.	475,285,271
1865	1,518,350	29.9	26.1	404,774,883
1866	1,387,756	25.1	37.7	783,671,588
1870	1,448,846	33.1	37.7	828,730,176
1875	1,515,598	29.2	23.7	1,046,448,147
1880	1,314,402	22.	13.	1,503,593,404
1885	1,262,814	21.3	13.7	1,319,717,084
1890	928,062	16.6	9.	1,647,139,093
1895	822,347	15.5	8.2	1,456,403,388
1900	816,795	12.9	7.1	2,089,528,616
1901	879,595	11.99	6.12	2,151,935,411
1903	888,776			2,445,860,916
1905	943,750			2,636,074,737

A study of the above table shows a remarkable growth in the amount of American foreign trade causing a demand for shipping. Except as influenced by the War of 1812 and the Civil War, this growth is found to be a healthy and continuous one. With this enormously increasing demand, it is evident that the small amount of tonnage engaged in our foreign trade, according to the table, cannot be accounted for as being the natural result of supply and demand.

B. SHIPPING LEGISLATION

1. *As to Coastwise Trade*

The policy of American lawmakers has from an early date been one highly favorable to American ships in the coastwise trade. It has always been considered that the coastwise, lake, and river trade should be carried by our own vessels, and as soon as it became evident that legislation would be necessary to keep out foreign bottoms, measures were at once taken. Accordingly, on July 20, 1789, Congress imposed a tax of six cents a ton on American-built ships owned by Americans, and of fifty cents a ton on ships constructed and owned abroad. It was further provided, as to the coasting trade, that American vessels should pay this tax but once during the year, while the foreign vessel should pay the tax whenever it entered an American port. At that time, when the freight earned by the average vessel was so much less than at present because of the smaller tonnage, such a tax was almost prohibitive. An American vessel of two hundred tons would pay a tax of twelve dollars a year, and might make fifty trips during that period. A foreign vessel of the same size would be forced to pay a tax of one hundred dollars every time it entered an American seaport, thus placing it under a

handicap of practically one hundred dollars a trip. This tax was intended to, and did for all practical purposes, bar foreign carriers from our coastwise trade.

Later, on April 5, 1808, Congress passed an act supplementing the Embargo Act, which absolutely forbade foreign carriers to enter our coastwise trade under any conditions, and thus closed this trade to the few alien vessels which might at times pay the high tonnage tax.

In 1809 this absolute prohibition was modified, but on March 1, 1817, Congress passed a navigation bill, the fourth clause of which was as follows: —

SECTION 4. That no goods, wares, or merchandise shall be imported, under penalty of forfeiture thereof, from one port of the United States to another port of the United States, in a vessel belonging wholly or in part to the subject of any foreign power; but this clause shall not be construed to prohibit the sailing of any foreign vessel from one to another port of the United States: Provided no goods, wares, or merchandise, other than those imported in such vessel from some foreign port, and which shall not have been unladen, shall be carried from one port or place to another in the United States.

This law reserving the coastwise trade to American ships has always remained upon our statute books, and has been rigidly enforced. The statute has in every instance been construed favorably to our shipowners.

A voyage from New York around Cape Horn to San Francisco, or from San Francisco to Honolulu, is held to be a coastwise voyage. The restriction has now been extended to the Philippines, so that the effect of the act of 1817, as applied to coastwise shipping, has been very far-reaching.

2. As to Foreign Trade

It is to be expected that when the major portion of the people of a country dwell near the seashore, and hear the "call of the sea," a very great interest will be taken by the general public in shipping affairs. Therefore, it was natural that the colonies were scarcely well settled before they began to endeavor to build up their shipping by discriminations at the expense of one another or of alien carriers. A number of the colonial charters authorized the levying of discriminating duties.

Virginia seems to have been the first, in 1631, with a duty of two and one half per cent on goods imported by foreign subjects, and five per cent on all goods imported by foreigners,—the latter goods presumably in foreign bottoms.

Massachusetts early levied retaliatory duties, Maryland having compelled vessels to pay fees before trading in her ports. It would not be of much practical value to endeavor

to enumerate the different colonial measures, except as evidencing the need then felt for legislation favoring shipping. In 1785 New York imposed a double duty on goods imported in British ships. Massachusetts and New Hampshire adopted navigation acts forbidding English ships to carry goods out of, and imposing a heavy duty upon goods which they might bring into, their harbors. In short, in 1789 the various colonies had adopted regulations, according to W. W. Bates, former United States Commissioner of Navigation, as follows: —

Connecticut had a tonnage duty on foreign vessels levied in 1784.

Delaware levied tonnage duties.

Georgia levied tonnage duties on foreign vessels.

Maryland levied a tonnage duty of one dollar per ton on British vessels, sixty-six cents per ton upon French and Dutch, and none on American vessels.

Massachusetts had an extraordinary tonnage duty on all foreign vessels levied in 1785, and imposed no duty on American vessels.

New Hampshire imposed an extraordinary tonnage duty on all foreign vessels by act passed in 1785, while allowing American vessels to enter free.

New Jersey had tonnage duties imposed in 1783.

New York collected double duties on goods by British vessels, whether brought directly or through other states, by act of 1784.

North Carolina had discriminating tariff and tonnage duties favoring American vessels.

Pennsylvania levied tonnage duties — on ships of treaty nations 5s. 8d. per ton; on those of other nations 7s. 6d. per ton. There were also discriminating tariff duties,—teas direct from China in American vessels, free, but subject to duty if brought indirectly or by foreign vessels.

Rhode Island levied tonnage duties on foreign vessels.

South Carolina levied tonnage duties with an extra duty on goods in foreign bottoms.

Virginia levied tonnage and discriminating duties — on French or Dutch vessels fifty cents per ton; on British vessels one dollar per ton; American vessels free.

The first Federal Congress under our new constitution, which met in April, 1789, found, therefore, that the various states had previously all had some regulations as to shipping, and that there existed a well-crystallized public sentiment demanding protective legislation. That such a sentiment existed can easily be accounted for when it is remem-

bered that in 1783, by a Royal Proclamation, no goods could be exported or imported by the West Indies except in British vessels, thus forcing us to use British bottoms in that trade. In addition the English Navigation Act prohibiting any American goods being imported into England, Ireland, or Wales except in English ships was still on England's statute books. England suspended the operation of the act from year to year after the Revolution, but refused to repeal it. Under such circumstances it was inevitable that the early legislation should be enacted somewhat in a spirit of retaliation.

Between 1789 and 1828 Congress passed no less than fifty tariff laws intended directly or indirectly to protect American shipowners or shipbuilders. Only the more important of these will be noted. Very soon after its organization the first United States Congress took up the tariff and shipping questions, and upon July 4, 1789, passed a bill embodying the following provision for aiding shipping by discriminating duties:—

SECTION 5. That a discount of ten per centum on all the duties imposed by this act shall be allowed on such goods, wares, and merchandise as shall be imported in vessels built in the United States, and which shall be wholly the property of a citizen or citizens thereof, or in vessels built in foreign countries, and on the sixteenth day of May last wholly the property of a citizen or citizens of the United States and so continuing until the time of importation.

On July 20, 1789, Congress passed the act heretofore referred to in connection with the coastwise trade, which provided a tonnage tax as follows: —

On all ships or vessels built within the United States and belonging wholly to a citizen or citizens thereof; or not built within the United States, but on the twenty-ninth of May, 1789, belonging, and during the time such ships or vessels shall continue to belong, wholly to a citizen or citizens thereof, at the rate of six cents per ton. On all ships or vessels hereinafter built in the United States, belonging wholly or in part to subjects of foreign powers, at the rate of thirty cents per ton. On all other ships or vessels, at the rate of fifty cents per ton.

The same act, in addition to the ten per centum already mentioned, imposed very heavy duties on teas brought from China or the East Indies in other than American bottoms. The duties were so heavy, in fact, as to render almost imperative the use of American vessels in this trade.

This same Congress passed a registry act on September 1, 1789, which provided that vessels built in the United States and belonging wholly to a citizen or citizens thereof, or not built in the United States, but on the sixteenth day of May, 1789, belonging to a citizen, and no others, should be deemed and taken to be ships of the United States and entitled to the benefit of the law as such. This act of September 1, 1789, was reënacted and added to by a subsequent act in 1792, more

stringent in its terms, confining American registry to vessels built at home and owned by actual residents of the United States. This act of 1792 still remains on our statute books, and is the one which now prevents an American citizen from purchasing a ship built abroad and registering it under the American flag.

It will be noted that the first American Congress provided discriminating duties, tonnage duties, and a registry limitation, all distinctly directed toward building up our ship-building and ship-operating interests.

The next important measure favoring our shipping was the "Light Money Act." By act of Congress passed in 1804 an extra tonnage duty of fifty cents per ton was levied upon all vessels not of the United States. This levy was made ostensibly for the purpose of keeping up lighthouses, but the effect, taken with the former legislation mentioned, was to levy a duty of ninety-four cents per ton more on a foreign than on a home vessel entering our ports after June 30, 1804.

In 1794 was negotiated the celebrated Jay treaty of commerce, which provided, "That there should be between all the dominions of His Majesty in Europe and the United States a reciprocal and perfect liberty of commerce and navigation." This treaty did not repeal

our navigation acts, but allowed England to levy countervailing duties which by the treaty we could not meet. The Jay treaty was given effect in 1797, and remained in force until 1807.

In 1815 came a great change in the maritime policy of the United States. Hitherto, the carrier had been protected both by tonnage taxes and by discriminating duties. At the above date came a change from protection to reciprocity. That such a radical change in policy did not meet with much stronger opposition than it did, in fact, encounter, can be accounted for only on the supposition that the former measures had been enacted with a view to retaliation as much as for protection, and many felt that, since ships were being built at home cheaper than abroad, protection was no longer necessary. Whatever the underlying motives may have been, on March 3, 1815, Congress passed an act providing for the repeal of discriminating duties on imports and of tonnage taxes upon any cargo of its own productions brought by the vessel of any foreign nation, on condition that reciprocal measures were adopted by such foreign government. In other words, this act provided for reciprocity in the direct carrying trade, but not in the indirect.

On July 3, 1815, the United States entered

into a convention with Great Britain granting the benefits of the act of March 3, but stipulating that the reciprocity should not extend to the West Indies.

On March 1, 1817, Congress passed an act forbidding the importation of goods from any foreign port, except in American vessels, or vessels of the country from which the goods came, except where such foreign port imposed no such prohibition against American shipping. This act aimed to compel reciprocity on the part of nations engaged in the business of carrying goods for others.

Since one of our chief reasons for offering reciprocity was to open the West Indies, Congress soon became dissatisfied with the action of Great Britain in keeping our carriers from that trade. Accordingly, in 1818, Congress enacted that American ports should be closed to any British vessel coming from any British port, colonial or otherwise, which was closed against vessels of the United States. It was expected that this act would force Great Britain to open to America the trade of the West Indies, and although Great Britain fought against this result for a number of years, she was finally forced to yield.

After the passage of the act of 1818, England declared free a few ports in the West Indies at which United States vessels could

get no business, and then insisted that America clear British vessels to these free ports. To remedy this evasion, in 1820, an act was passed extending the act of 1818 to all the ports of the British West Indies, the free ports as well as the closed.

The French were trying to gain a monopoly upon French commerce with the United States by imposing prohibitive duties upon American products unless carried in French vessels. Accordingly, on May 15, 1820, Congress levied an additional tonnage duty of eighteen dollars per ton upon all French vessels entering American ports, until they should accept our offer of reciprocity.

On May 24, 1828, Congress passed a very important bill offering reciprocity to all, both in the direct and in the indirect trades. It authorized the President of the United States to issue a proclamation suspending our discriminating duties and tonnage taxes upon foreign vessels in the direct or indirect trades, providing the nations claiming the benefit of the act imposed no restrictions upon American vessels.

Upon May 29, 1830, an act was passed repealing the acts of April 18, 1818, and May 15, 1820, and full reciprocity was offered to Great Britain and her colonies both in the direct and indirect trades. Great Britain

having accepted our offer in terms, although she did not do so in spirit until 1849, on October 5, 1830, full reciprocity was extended by the President's proclamation to Great Britain.

Since 1815 forty-two different countries, including all of importance, have accepted our offer of reciprocity and entered into treaties to that effect. Fourteen agreements have been terminated, and there are now some thirty reciprocity treaties in effect. These are, however, subject to repeal by act of Congress or by notice. Our treaty with Great Britain requires one year's notice of intention to terminate.

The act of 1830 is the last of great importance so far as shipping interests in general are concerned.

On March 3, 1845, the first act was passed providing for aid to shipping in the form of grants for the carriage of the mails. From 1845 to 1857 about fourteen and one half millions were paid by the government for this service.

From 1858 to 1865 the government gave no aid to vessels in the ocean mail service. In 1865 the government made a grant to a line operating between New York and Rio Janeiro, paying altogether the sum of one and one half million dollars. The grant was then withdrawn and the line discontinued.

Congress also passed an act on February 16, 1865, making a grant to the Pacific Mail Steamship Company for operating ships to the Orient. The contract expired in 1877, and the company having received four and one half million dollars, the agreement was not renewed.

No further attempt was made to aid shipping until 1891, when Congress passed another act authorizing the Postmaster General to make contracts for from five to ten years for the carriage of the mails. The contracts were open to competitive bidding, and the maximum was fixed at a price which would give more than a payment for services actually rendered to the government. The Postmaster General has made six contracts, and the act, known as the Postal-Aid Law, is still in effect.

On December 19, 1898, Senator Hanna introduced the Hanna-Payne Bill, which aimed to subsidize shipping generally and not simply mail carriers, according to tonnage, speed, and distance covered. It soon became evident that the bill could not pass, and it was not put to a vote. A similar bill met the same fate in the next Congress.

Senator Frye introduced another general subsidy bill in the Fifty-Seventh Congress, and succeeded in having the same favorably

reported and passed in the Senate, but it was not voted upon in the House of Representatives.

A bill drawn upon lines suggested by the majority of the Merchant Marine Commission is now pending before Congress. This bill increases the subvention to the Oceanic Line running from the Pacific coast to Australasia, and establishes thirteen new contract mail lines. It also grants a subsidy, terming it a subvention, of five dollars per gross ton to all vessels engaged in foreign trade by sea, or the deep-sea fisheries for twelve months. There is also a provision levying a tonnage duty of sixteen cents per net ton on vessels from foreign ports, but stipulating that American vessels may obtain a rebate of eighty per cent by employing an American boy for each one thousand tons of their tonnage.

As was expected this bill, strengthened by the report of the Merchant Marine Commission, met with little opposition in the Senate and passed that body on February 14, 1906. It has,¹ however, not yet been under consideration in the House, and it is more than doubtful whether it will become a law at this session. The Speaker is opposed to it because he is desirous of keeping down appropriations as much as possible. The House of Repre-

¹ March, 1906.

sentatives is much nearer the people than the Senate, and will certainly consider the matter with care before passing a measure giving direct grants to special interests, without any service being rendered in return, a step almost sure to meet with popular disapproval.

C. EFFECT OF LEGISLATION UPON TONNAGE

1. *In Coastwise Trade*

It is always difficult to generalize from statistics, as to the effects of legislative enactments. There is too often an unwarranted emphasis placed upon the effect of legislative enactments, as against economic conditions, since the former are evident upon the pages of the statute books, while the latter are frequently little understood.

The effect of the act of 1789, reënacted in 1792, however, is evident. It gave a monopoly to American vessels in the coastwise trade, and we have seen our tonnage increase from 68,607 tons in 1789 to 5,441,688 in 1905. This vast body of shipping has been saved to us, and on the whole the policy inaugurated in the coastwise trade, while of course inapplicable to the foreign trade, seems to have been a wise one in view of our present protective tariff policy as to other industries.

2. *In Foreign Trade*

Nothing can be deduced from the various colonial regulations. They were frequently aimed as much at neighboring colonies in America as against foreign countries, were not at all uniform, and were often evaded. These measures were very largely passed simply in retaliation.

The effects of the various acts of 1789 were decidedly marked. In 1789 Great Britain's tonnage arrivals in our ports amounted to 212,544 tons, while in 1796, seven years later, her arrivals had fallen to 19,699. In 1789 American tonnage was 128,893, carrying 17.5 per cent of our imports and 30 per cent of our exports, while in 1796 it had increased to 576,733 tons, carrying 94 per cent of our imports and 90 per cent of our exports. This growth was little short of marvelous, and making due allowance for the fact that capital and labor then naturally turned to the sea, and also for the Napoleonic wars, a large part of this increase must be ascribed to the legislation in force.

The provision of the act of 1789, reënacted in 1792, relative to the registration of vessels, was in harmony with the then existing policy which was to protect both shipowner and ship-builder. While the United States was building

very cheap ships and was protecting them against foreign competition, forbidding registry to foreign-built ships had some foundation in reason. But with the withdrawal of protection to the shipowner, and the acquirement by foreigners of the advantage in cost of ship construction, should have come an abandonment of the policy of limiting registration to American-built ships.

Up to 1815 our shipping was fully protected, and throve except as affected by the War of 1812. From the end of this war until 1826 growth was rapid, and in 1826 American shipping reached its maximum, for in that year American vessels carried 95 per cent of our imports and 89.6 per cent of our exports, a percentage never equaled before or since. This was during a time of partial reciprocity, but up to this time only Great Britain, France, and Sweden and Norway had accepted our offer of reciprocity. Our contest with Great Britain, our greatest rival, and the measures of 1818 and 1820 prevented actual reciprocity with her, so that it was not until 1830 that full reciprocity with Great Britain began. In that year British arrivals were 100,298 tons, in the next year 239,502 tons, and her arrivals have been on the increase ever since.

The adoption of full reciprocity in the direct and indirect trades seems to the writer

to have been an error, if it was expected to have ships and at the same time protect other industries. Had we retained our discriminating duties we should undoubtedly have kept a fair portion of our shipping, but it by no means follows that it would be wise to endeavor to restore that policy at the present time.

Since 1830 there has been no protection extended to shipowners either in the direct or indirect trade. The few subsidy measures mentioned simply aided temporarily the small number of vessels carrying the mails, which received them. The United States has never had any policy of subsidies which has extended aid to shipping generally with an aim to build up a marine of cargo carriers, as well as of fast mail ships and auxiliary cruisers. The bills introduced in the last four sessions of Congress, however, contemplate aid to cargo as well as to mail steamers.

III. PRESENT STATUS OF AMERICAN SHIPPING

A. IN COASTWISE TRADE

1. *Tonnage*

THE United States has a fleet of American-owned and American-built vessels in the coastwise trade of which it may well be proud. This home fleet has increased far more rapidly than the coastwise fleet of any other nation, and now has a tonnage more than three times that of Great Britain in the coastwise trade, and five times that of any other country in that trade.

According to Lloyd's Register of Foreign Shipping for 1905-06, Germany, which ranks next to Great Britain in foreign tonnage, had a gross tonnage of 3,546,789. Our coastwise tonnage, including vessels of all descriptions, for the same year was 5,441,688. The American tonnage on the Great Lakes alone is more than twice the gross tonnage which America has in the foreign trade, and earned, according to Mr. Harvey Goulder, an authority on lake shipping, approximately the sum

of forty million dollars in freights in one year. Such a volume of shipping has created a demand for shipbuilding, and to it must be attributed whatever shipbuilding interests there are in the United States, since with no ships being built for the foreign trade, the only other source of demand is the construction of vessels for use in the navy.

These shipbuilding interests are considerable. According to the United States census returns, in 1880 there were engaged in shipbuilding in this country 2188 establishments, employing 21,345 men, having a capital of \$20,979,874 and with an annual output of \$36,800,327. In 1900 there were 1116 establishments, employing 46,781 men, with a capital of \$77,362,701 and an annual output of \$74,578,158.

2. Efficiency

Neither is this coastwise fleet lacking in efficiency. Of the tonnage for 1905, 8517 were steel steamers with a tonnage of 3,140,314, and 13,271 were of wood with a tonnage of 2,301,374. That a far larger proportion is not in steel steamers may be attributed to the high cost of domestic steel due to the protective tariff. The size of carriers also has kept pace with the times. While in 1868 the average sailing vessel on the lakes was of but 158 tons,

in 1901 the average tonnage of newly built steamers for this trade was 1436 tons.

In speed our builders have made great progress, and many of the large cargo carriers of the newer type are faster than ocean carriers of a corresponding type and size.

The ownership of all these vessels at home has had great influence in causing to be built local terminal facilities which are unsurpassed anywhere. Every one familiar with our lake ports has looked with admiration at the machinery in operation, which will in a few hours fully load our largest carriers.

The coastwise shipping of the United States is adequate in amount of tonnage, efficient in equipment, size, and speed. At the same time supply and demand have kept the freight rates where they will compare very favorably with the rates charged in the foreign carrying trade.

3. *Reasons for Growth*

a. Growth in trade. This growth is of course due to the great commercial prosperity of the United States. Iron ore, lumber, and coal have constituted three fourths of the tonnage carried on the lakes, and grain a large part of the remainder.

b. Monopoly. This naturally increasing demand for carriers has been promptly and efficiently supplied under the existing registry

laws giving American owned and built vessels a monopoly. The registry law thus restricting the trade to American vessels and liberal appropriations by Congress for rivers and harbors have resulted most fortunately for American shipping interests, all things considered.

B. IN FOREIGN TRADE

1. *Tonnage*

Looking from our magnificent coastwise shipping to the United States shipping in foreign trade, an observer is struck at once with the decidedly sharp contrast. With our thousands of miles of coast line, excellent harbors, and immense volume of exports, he would expect that at least a fair proportion of its own products would be carried to market by a nation which has such unequaled carriage facilities at home. When he found that in 1861, with our foreign commerce amounting to \$508,864,375, our foreign trade shipping had a tonnage of 2,496,894, and learned that the commerce had, in 1905, grown to \$2,636,074,737, he certainly would expect the increased demand to have had a stimulating effect upon American foreign trade tonnage, which has in fact, during this period, decreased to 943,750 tons. Such a

showing is certainly an extraordinary one. The American flag is now seldom seen in a foreign port. In the trade between Europe and the United States, not a single American vessel goes regularly to or from Germany, Russia, Sweden, Norway, Denmark, The Netherlands, Austria-Hungary, Greece, or Turkey. The record of grain clearances for New York for one year showed twelve hundred ships sailing with cargoes of American products to foreign ports, and only seven of these carried the American flag. Of 50,000,000 bushels of grain leaving Baltimore in 1904 not over ten thousand bushels were carried in American bottoms. Hon. Charles Barrett, our minister to Panama, told the Merchant Marine Commission at Chicago, that in traveling seventy-five thousand miles and visiting most of the important ports, he never once saw the American flag flying over a single large American carrier. The English, German, and even the Japanese were everywhere.

According to Lloyd's Register for 1905-06 of vessels of one hundred tons and upwards, England and her colonies had a tonnage of 17,009,720, Germany had 3,564,798, France had 1,728,038, Italy had 1,189,066, while the United States had less than one million tons engaged in the foreign trade.

This condition of foreign shipping naturally has its effect upon shipbuilding for this trade in American yards. Since 1901 not a single keel has been laid in an American yard for a steel, sea-going vessel to be used in the foreign trade.

2. Efficiency

What carriers America has in the foreign trade are many of them far from first class. Many cannot be operated in the coastwise trade under the present law, and accordingly some of them are being operated until out of commission, and few new ones are being built to take their places. Of the 1333 American vessels in the foreign trade 965 are sailing ships, and 368 are steamers, while England has 9029 steamers to 2336 sailing vessels. Even in the efficiency of what little there is, the United States finds itself far outclassed.

3. Reasons for Existing Conditions

With our exports and imports increasing fivefold since 1861 and our foreign trade tonnage falling off two thirds in the same period, the searcher must expect to find some potent causes for the decline which has resulted in existing conditions. A number of causes have shared in bringing about this deplorable result.

a. *Change from wooden to iron ships.* (1) *Our advantage with wood.* One of the first causes which became operative was the change from wood to iron ships. The individual or nation entering into any line of business has an obvious advantage when able to obtain an equipment cheaper than its competitors can do, providing that equipment is in all respects as good as that of the competitors. This fact has always been evidenced in the shipping industry, and the nation which has been able to produce good ships most cheaply has usually produced and also operated them.

The forests of England from which had come the supply of material for shipbuilding had already commenced to fail when New York and Boston were yet in their infancy. On the other hand, the New World was amply supplied with the finest kind of material for shipbuilding. There were great forests of white oak, tough, elastic, and durable. Immense quantities of excellent yellow pine and straight white pine were available. These white pines were considered so valuable for shipbuilding that the King reserved them from his early patents, and frequently sent a surveyor to mark those deemed worthy to be set aside for naval use in England. Parliament granted bounties to encourage the

importation of shipbuilding material into England, and before the Revolution many shiploads of white pine left American shores for use in English ships.

The colonies from the first encouraged shipbuilders to come to this country. In 1724 the Thames builders complained that their best builders were going to America. These ship carpenters were exempt from military duty and favored in many ways. The American population was near the seacoast, and even between the colonies the waterways afforded the best and safest avenues of commerce. Thus America early had good shipbuilders, and with practice soon built good ships. An abundant and cheap supply of the best materials gave to the United States, until the advent of the iron ship, a decided advantage as to original cost of construction in shipbuilding.

(2) *England's advantage with iron.* By 1837 the iron ship had passed the experimental stage. Great Britain took very kindly to the iron ship, whereas American builders were loath to give up the wooden ship, in the building of which they had been able to defy all competition. Our builders did not take up the building of steel ships until 1848, and so sure was Great Britain of her advantage and ability to compete in shipbuilding at this time

that she opened her markets to American-built ships in 1849.

In 1849 the discovery of gold in California acted as a great stimulus to American shipping, and a large number of fast wooden clippers were constructed; but the demand for wooden ships soon began to decline, so that while in 1855 America built wooden ships of a total tonnage of 65,000 for foreign trade, by 1860 but 17,000 tons were built here for that trade. The United States had not its resources sufficiently well developed, when the steel ship first made its appearance, to compete with Great Britain, and by reason of tariff restrictions has never been able to overcome Great Britain's advantage in this industry.

(3) *Lloyds' discrimination against wooden vessels.* Lloyds also was an all-powerful agency favoring the iron ship. Its refusal to put wooden ships in as favorable a class as iron, except under certain arbitrary conditions, made it decidedly to the advantage of the shipper not to use American-built wooden vessels, if he desired to get a reasonable rate of insurance. Since 1860, therefore, advantage in cost of ship production has been with Great Britain, whereas at the time of our great prosperity in shipping with the wooden ships, advantage lay entirely with the United States.

b. Civil War. A second important cause of the decline in shipping was the Civil War. Such a prolonged struggle could not fail severely to cripple shipping. The inroads of the Alabama and the Florida were considerable, but when the war continued year after year and owners saw no prospects of obtaining freights, they began to despair and to dispose of their ships for almost any prices offered. The Southern ports of course offered no cargoes, and those from the Northern were difficult to obtain, a condition caused by the usual industrial paralysis accompanying such a struggle.

The Confederate cruisers alone destroyed 110,000 tons. In 1861, 26,649 tons were sold abroad; in 1862, 117,756 tons; in 1863, 222,199 tons; in 1864, 300,865; and in 1865, 133,832 tons. From 1861 to 1865 our fleet in the foreign trade fell off from 2,496,894 to 1,387,756 tons. The war thus lost to the United States more than a million tons of shipping, and although the decline in percentage of commerce carried had commenced many years before, the Civil War gave a decided impetus to that movement.

While the immense and immediate loss of tonnage from 1861 to 1865 may be attributed to the Civil War, the fact that the merchant marine instead of recovering has lost ground

from year to year cannot be attributed to that event. The shipping of the United States fell off during the War of 1812, but in a few years Americans were again carrying ninety per cent of the foreign commerce of the country. On the other hand, while after the Civil War the carrying trade improved slightly, so that by 1870 American bottoms carried one third of the country's foreign commerce, that proportion has never been carried since, and the decline has continued rapidly and without substantial check.

This war lost us a large amount of tonnage, and by forcing sale of vessels to foreign buyers liberated capital which never again sought employment in the operation of ships. It opened up various channels of demand for capital which otherwise might have found outlet in the shipping industry. Beyond these effects the check imposed by the Civil War was simply temporary to a very large extent.

C. HIGHER RETURNS ELSEWHERE

A third and very important cause of the present condition of American foreign shipping is the fact that there have been larger returns both for capital and labor when devoted to other lines of industry.

1. *On Labor*

American labor has not sought employment in the manning of ships because for many reasons better results could be hoped for along other lines. The pay of an American sailor shipping from an American port seldom exceeds twenty-five dollars per month on a sailing vessel, and thirty per month on a steamship. At the same port a mechanic would be receiving from three to four dollars per day, and an intelligent helper about two dollars and a quarter. The chances of rising to better and more remunerative positions have been in favor of the employee on land. In addition, life aboard ship has not been such as to attract permanently the average American. Many of the sailors who testified before the Merchant Marine Commission complained that their quarters in the fore-castle were entirely inadequate, and by no means such as an ordinary American worker would expect at home. Many sailors also complained of their loss of freedom. A sailor having made a contract for a round trip, under the existing laws cannot leave his vessel at the foreign port, even though willing to sacrifice his wages. He may be imprisoned and forced to comply with his contract. While such a regulation seems a wise one, the sailors

testifying seemed to consider it an imprisonment for failure to carry out a civil contract, and that contract one which the employer could and did frequently violate by making life so unpleasant that the sailor would be glad to leave at any port.

The wages given and conditions surrounding a sailor's life easily account for the fact that American men are not seeking this life as was done earlier in the country's history.

2. *On Capital*

Capital has also found more remunerative employment elsewhere. Unless returns are considerably larger, the average investor is more willing to place his capital in some industry at home with which he is acquainted than in foreign shipping, with which he is apt to associate some idea of risk. When that industry at home is one in demand with large returns secured by natural conditions or a protective tariff, the chances for investment favor the home industry to a very large extent indeed.

a. In railroads. Great Britain needed a large marine to give her means of intercourse with her various parts, her colonies in all quarters of the globe. The United States needed railroads to connect and develop its landed area, especially the great Northwest.

Therefore, with but twenty-three miles of railway in operation in 1830, the demand was so great that by 1904, according to Poor's "Railway Manual" for 1905, the railroad mileage of the United States had increased to 211,074 miles, with a capital stock of nearly six and a half billion dollars and net earnings of six hundred million dollars. The railroads have offered remunerative employment to capital, building up many of the enormous American fortunes, and offering a return which could not be hoped for in shipping under existing conditions.

b. In manufacturing. Manufacturing has also offered much more attractive opportunities for investment to capital than could foreign shipping. The steel and iron business may be taken as an example. The output of American mills and furnaces for 1905 is placed at over eight hundred million dollars. This industry is protected from injurious foreign competition, and thus enabled to pay greater dividends than can be obtained in an unprotected industry such as shipping. Capital naturally seeks these protected industries rather than compete with all nations, as it must necessarily do in foreign shipping.

c. Trade generally. The same demand for capital has been found in American industries generally. The capitalist abroad has

been willing to accept a less rate of interest on his investment in the shipping industry than could be earned by the American investor along other lines at home. The demand for capital in railroads, manufactures, and trade generally has been such that shipping has not offered an attractive investment for capital which at an earlier date, or under other conditions, would naturally have turned toward the sea.

d. American protective tariff. A fourth cause of the decline of shipping, and one to which more than any other may be attributed the existing condition, is the protective tariff already mentioned, which forces capital into other and more profitable channels. While a protective tariff may be justified as turning capital from lines of small and diminishing returns to those of larger and increasing returns, it cannot but result fatally to an unprotected industry competing freely with all foreign nations, when that industry is forced to use as materials the product of the home-protected industry, and to employ labor whose wage is increased by the tariff policy.

(1) *Effect on price of materials.* The effect on the price of materials is clearly seen in the shipbuilding industry, where it places a heavy handicap upon the American builder at the very outset by increasing the first cost of his

building materials. Up to 1890 the tariff on steel was prohibitive, and even now that America is exporting large amounts of iron and steel, the duty is still forty-five per cent ad valorem for entrance into the United States.

In 1903 steel plates were selling for \$41.40 in America, \$25.50 in England, and \$30.23 in Germany. In 1904 the price in England was \$27 per ton, and the price charged in the United States was from \$35 to \$40 per ton. Most of the builders who testified before the Merchant Marine Commission stated that an English builder could buy American plates delivered in England for eight dollars per ton less than they could be purchased here where manufactured.

It appeared that an 8000-ton steamer required 3500 tons of plates, which at existing prices at that time gave the English builder an advantage of \$28,000 on that item alone. Charles H. Cramp stated that in the construction of a large vessel the American handicap had been as high as \$150,000. Certainly this is protection with a vengeance when it is remembered that so many tons of those plates in the sides of foreign-built vessels were furnished at a fair price by American manufacturers, who would not think of quoting a like figure to an American builder.

Here is always advanced the argument that materials have been free for wooden vessels since the passage of a measure some thirty years ago, and that, by the Dingley tariff, iron and steel materials to be used in the construction of vessels for the foreign trade are not subject to duty. It is argued that our builders may buy abroad and import without paying duty, but that they have failed to do so. Builders state that delay in getting plates from abroad, and the fact that they may be injured in transit, has frequently induced them to pay the increased price at home. But a far more important reason why plates are not imported for use in vessels built for the foreign trade is that the law allowing this exemption from duty stipulates that no vessel built wholly or in part of this foreign non-dutiable material shall be used in the coastwise trade of the United States for more than two months of any one year, except upon payment of the duty. The American buyer knows that he may at some time wish to transfer his vessel to the coastwise trade, at least temporarily. He realizes that he may wish to dispose of his vessel to another for use in the coastwise trade, and that at any rate its market value in America will be less because of this restriction as to its use. Therefore, he decides that he may as well have his vessel

built of American material at the advanced price, which, considering possible injury in transit, delay, and restrictions, seems a wise decision. Thus it is that special interests are always protected by our ever careful legislators, who then wonder why so many laws fail to produce the result anticipated.

In fairness it should be noted that at times, owing to industrial conditions abroad, the price of steel for ships has been as high there as in this country. This condition is, however, a rare one, and the difference of eight dollars per ton in favor of the English builder is rather below than above the average.

(2) *Effect on securing cargo.* Another way in which the tariff has hindered the growth of American shipping is by preventing the importation of goods from foreign countries, thus rendering it difficult for the American carrier to obtain a cargo for the home port.

Owing partially to the high tariff on imports, American exports for the year ending June, 1905, exceeded imports in value by the sum of four hundred and one million dollars. A large part of the exports was in the form of raw materials, so that the bulk of cargoes exported was several times that of cargoes imported. This condition of affairs renders it far more difficult to obtain a cargo for an American port than to obtain one from

America. Other things being equal, the foreign shipper favors the vessel of his own country. The British vessel having secured a cargo for America has a very good chance of securing a return cargo, although not chartered in advance, because of the large demand here. The American vessel, on the other hand, when it takes a cargo to a foreign nation stands decidedly less chance of obtaining a return cargo, because the high tariff has helped to make those cargoes relatively scarce, and the nature of the materials carried has tended toward the same result. The fact that the American carrier is so frequently forced to come home in ballast goes far to explain the difficulty which it has in competing with the vessels of nations whose imports always exceed exports both in value and bulk.

(3) *Effect on wages of seamen.* Still another way in which the tariff has placed our shipping under a disadvantage is by keeping up the price of labor in the American market. The writer does not wish to attempt to discuss here the effect of the tariff upon wages, nor is it claimed that the high wages here existing are entirely the result of tariff regulations. Undoubtedly the vast resources of the new and unexploited country have been the prime causes. Nevertheless, it does appear that the tariff by diverting capital

from agriculture, an industry subject to the law of diminishing returns, to manufacturing, which to a large extent is the subject of increasing returns, has increased the wage scale in the United States legitimately. Then, too, by reason of the monopoly given him the manufacturer has been able to charge a price which would permit him to pay a larger sum for a given unit of labor. It does not necessarily follow that the purchasing power of the wage-earner's share is increased, but that he receives a larger amount of money than he otherwise would. A mechanic receiving two pounds a week abroad might be able to purchase more with it than one receiving twice that amount here. But the shipowner or shipbuilder in America, having to pay the higher wage scale, would in no wise be affected by the fact that his employees could not purchase any more with the high wages paid them than could the employees of his competitor with their smaller wages. He must compete in exactly the same market, and in so far as he is forced to pay higher wages he is at a direct disadvantage.

On the whole, therefore, much may be laid at the door of the tariff, which has diverted capital from shipping by making investments in protected industries more

profitable, has kept the price of building materials high, has rendered it more difficult for the American vessel to obtain a home cargo, and has in a measure raised the price of labor which American vessels must employ. An unprotected industry under such conditions, when unable to demand any higher compensation than competitors, must necessarily languish. Had there been no protective tariff policy, America would undoubtedly have been carrying her share of the commerce on the seas to-day. An abolition of all duties would in time enable this country to build up a satisfactory foreign trade marine. However, the tariff system, as stated, is too firmly fixed to be abolished simply to build up shipping, and on the whole that system seems to have practically demonstrated its soundness in view of commercial conditions in this country.

e. High wages. (1) *In shipbuilding.* A fifth cause of our small foreign trade marine is the fact that higher wages prevail in America than in other countries competing in the carrying trade.

The cost of labor in shipbuilding is from fifty-five to seventy-five per cent of the total cost of construction, depending upon the type of the vessel. The cost of labor is therefore an important consideration in ship

production. The many shipbuilders who appeared before the Merchant Marine Commission, without exception, stated that the cost of labor was far higher in the United States than abroad. None of the witnesses placed the difference at less than twenty-five per cent, and some estimated the difference at as high as eighty per cent. Evidence adduced showed the following to be the wage scale at the same time in shipyards here and abroad:—

	<i>Weekly Wages</i>	
	<i>San Francisco</i>	<i>Great Britain</i>
Machinists	\$19.38	\$9.69
Boiler-makers	19.74	9.36
Ship-carpenters	22.14	9.88

It is frequently said that this difference is made up in the increased efficiency of the American worker, as in iron and steel and in other industries. However this may be along other lines, the American worker has never demonstrated any such superiority over the British in shipbuilding. On the contrary, because of the fact that the British output is so large, the various yards have been enabled to specialize. One yard confines itself almost entirely to the making of vessels of a certain type, and by this method of specialization is able to introduce various economies denied to the American builder.

By virtue of the increased efficiency of a given unit of labor due to this specialization America's foreign competitor has been able to more than overcome any natural superiority on the part of the American mechanic.

Taking increased cost of materials and high wages of labor into consideration, it is evident that at the present time the American builder cannot compete with the foreign. The persons appearing before the Merchant Marine Commission placed the cost in America at from thirty to fifty per cent above the cost in the British yard. A number of witnesses stated that they had requested bids on proposed vessels from American and British builders. One large vessel owner on the Pacific testified that the best American bid on a vessel was \$380,000, and that a Clyde builder took the contract for \$200,000.

There have been times when the ship-building industry in the United States has been in anything but a flourishing condition. Yards needed employment very badly, Americans were having ships built, and would gladly have given home yards the preference; but the lower cost abroad has almost invariably allowed foreign yards to underbid.

Some years ago Mr. Charles Cramp testified before a Senate committee that his

company was building ships for Russia, having obtained the contract after competitive bidding with France and Germany, and that his company had built ships for Japan in competition with Great Britain. With this statement as a basis, it is frequently argued that ships can be built in America as cheaply as elsewhere. However, the cases cited were simply isolated ones. Mr. Cramp stated to the Merchant Marine Commission that his company could not compete under existing conditions. The fact that Americans owning ships under foreign flags uniformly have them built abroad is itself the best proof that our builders cannot successfully compete with foreign yards.

(2) *In ship operating.* The high wage scale existing also has its effect upon the owner in the operation of his vessel. At the outset the American law provides that all officers above the grade of watch must be Americans, if the vessel is operated under American registry. The owner of the American vessel is thus forced to a certain extent into the American labor market. The wages paid on vessels belonging to Norway, Sweden, Russia, Germany, Austria, and Spain average from forty to fifty per cent less than the scale paid on the American vessel, and the cost of maintenance on the vessels from these

foreign countries is also considerably less. Even the British owner has a considerable advantage. The following schedule of the officers employed on a four-thousand-ton steamer and the wages received in the two countries was in evidence before the Merchant Marine Commission:—

<i>Officer</i>	<i>Monthly Wages</i>	
	<i>British</i>	<i>American</i>
Captain	\$100	\$200
Mate	60	90
Second Mate	40	75
Third Mate	30	60
Chief Engineer	80	150
Second Engineer	60	90
Third Engineer	40	75
Total	410	740

It must be remembered that the American owner has no choice, and must employ American officers if he wishes to operate his vessel under the American flag. The British rate for the common sailor was twenty dollars per month on a steamship, and fifteen on a sailing vessel, when in America the pay was twenty-five dollars per month on a steamer, and eighteen on a sailing ship.

It would seem that the difference in wages of sailors could be overcome largely by shipping the crew abroad. Section 4519 of the United States Statutes says:—

Every master of a vessel in the foreign trade may engage any seaman in any port out of the United States to serve for one or more round trips from and to the port of departure, or for a definite time whatever the destination.

The "Coast Seaman's Journal" speaking for the sailors says: —

Wages are equal on the vessels of all nationalities when shipping crews in any given port. In other words it is the rule of the port, and not the flag of the ship, which governs the wages.

In view of these statements it would seem that the theory of high cost of operation because of increased wages to the American seaman has little foundation in fact.

However, practically every one of the many shipowners who spoke before the Merchant Marine Commission asserted that it cost at least twenty-five per cent more to operate a vessel under the American flag because of increased wages. For example, one shipowner had a vessel under the Norwegian flag and another under the American. He found that the wages on the former were about one-half those on the latter, and endeavored to ship a Norwegian crew on his American vessel at the wages prevailing on his Norwegian vessel; but the crew refused to serve except at the American wage scale. The president of the United Fruit Company stated that of its fleet of sixty-nine vessels

all but nine had been transferred to the Norwegian flag because of cheapness in operation.

It scarcely seems credible that the flag flying over a ship should make any material difference in the wages paid at a given port as a general rule. In some cases it probably does so. To a certain extent a vessel is a part of the land to which it belongs. An American vessel manned by American officers more nearly reflects home conditions. If a sailor learns that others on board are receiving higher American wages, he is unwilling to receive any less amount. The American vessel naturally obtains its crew at an American port, where the wage scale is determined by labor conditions there, far more frequently than does the foreign vessel which usually employs its crew at home for the trip. Many of Norway's vessels employ their men for several years at a time at much less than the wages prevailing in a United States port.

The American consul at any foreign port will not allow a captain to discharge or leave any of his crew unless he makes provision so that they will not become public charges to be returned at the expense of the United States government. In addition, it is frequently hard to obtain a crew abroad when the need is most urgent, so that very often the crew is shipped at home in the American

port for the round trip at the higher rate here. Accordingly, although shipowners may and do at times unduly emphasize the disadvantage under which they labor in operating ships by reason of higher wages, it is a fact that the American vessel, far more often than its foreign competitor, ships its crew in America and pays the higher rate, and that the increased cost of operation arising from this source is a factor which must be given consideration.


f. American navigation laws. (1) *American registry law.* In view of the various causes above mentioned which have operated to cause the existing decline, it is clear that American navigation laws have served to accelerate rather than to check the decline.

Especially is this true in the case of the law of 1792, prohibiting American registry to vessels built abroad. England quickly realized the value of the wonderful invention of Bessemer, and for a number of years furnished a very large part of the steel used in this country not only in shipbuilding, but also on our railroads. From 1865 to 1875 our builders were at a decided disadvantage irrespective of the tariff, and the tariff on steel has kept them there. The registry law directly forces our shipowners to buy in a dear market when their competitors have

the markets of the world open to them. The American owner has had no advantage whatever in the foreign trade in return for his larger original investment making his fixed charges for interest and depreciation relatively much higher. This law has forced the American wishing to obtain this equipment as cheaply as his competitor to go into the foreign market and buy his vessel, and then keep his purchase under the foreign flag.

Ever since the advent of the iron ship this registry law has served to force even American-owned vessels under foreign flags, and more than any other law concerning navigation is responsible for the few vessels in the foreign trade registered under the American flag.

(2) *Compelling hire of American officers.* The law compelling hire of American officers has also at times been a disadvantage to the owner under the American flag. An American owner can place his vessel under the Norwegian flag and obtain for considerably less wages officers who are able to navigate the vessel with a cheap Norwegian crew at a great saving in wages. A few hundreds per month saved may mean all the difference between success and failure in the operation of an ordinary tramp carrier.



(3) *Food scale.* Our navigation laws also place the American vessel under a disadvantage in compelling the owner to furnish his crew a daily bill of fare practically equal to the standard of living ashore in the United States, and costing considerably more than the fare provided aboard the vessel of almost any foreign country. The standard of living being relatively high in the United States, it can be maintained aboard ship only at an increased cost. Great Britain is the only nation providing so well for her sailors, and the seamen testifying before the Merchant Marine Commission stated that on the whole the fare provided on the ordinary American tramp vessel was better than that on a similar vessel of any nation in the world.

(4) *Release of sailors.* The policy of the United States in refusing to allow an American vessel to release its sailors at a foreign port unless provision is made for their return passage frequently prevents the hiring of men in a foreign port at a smaller wage, and compels the captain to retain his men when the vessel is delaying a long time while waiting for a cargo.

On the whole, the American navigation laws have not been enacted with a view to that liberal policy which would naturally lead to freedom of action for capital and

labor and the encouragement of maritime interests. Rather these laws have hedged shipping about with restrictions, making it more desirable for American capital seeking investment in shipping to go under foreign flags, which it has accordingly done in considerable amounts.

IV. THE REMEDY

A. WHY TRY TO REMEDY

WHEN a proposal is made to take some measures in aid of shipping the inquiry at once suggests itself: Why aid shipping especially? Why not give our aid just as much to a hundred and one industries now subject to foreign competition?

1. *Commercial Interests*

a. Freight money. The reason most frequently advanced because of its appeal to the vulnerable place of the average American, the pocketbook, is that by carrying our own foreign commerce we should save the \$200,000,000 now annually paid others for carrying our freight. This argument is universally advanced by advocates of government aid. Lincoln's argument is again and again given, in which he stated that if he purchased a pair of trousers abroad for ten dollars, the trousers came here while the money left the country, but that if the trousers were made in America both trousers and money remained here. It is asserted that if this immense sum were kept at home, the balance of trade in favor of the United

States would be greatly augmented, and capital brought here to act as a stimulus upon the commercial welfare of the country.

This argument assumes that America pays the freight both ways, and that the capital invested in shipping would produce more in shipping than in the industries in which it is at present employed. There seems to be no logical ground whatever for saying that our people pay the export and import charges. Foreign commerce is bilateral, and the carriage bill is also paid in part by those dealing with us.

There is nothing other than an appeal to sentiment in the fact that a great amount is paid to foreign vessel owners, unless it appears that American capital is not employed so advantageously in other lines as it could be in shipping. If the American capital necessary to earn these two hundred millions in the carriage trade can earn fifty millions more in some other industry, the country is the gainer by that amount, although it does have to pay foreigners for carrying its freights, so far as that transaction is concerned. The capital necessary for shipping would not spring into being, but would have to be taken from some other employment.

The fact that our trade with Great Britain is so large, irrespective of the fact that so large a part of it is carried in British bottoms, is the best evidence that the trade has proved mutually profitable. Too much emphasis has been placed upon the item of freight charges alone, without any endeavor being made to show that American capital necessary for shipping could more profitably be employed there than where it is now invested.

b. Increase of commerce. Another argument is that American carriers would increase American commerce, or that trade would follow the flag on the ship. In this day of the telegraph and easy communication, it seems far more probable that trade follows the price list. The increase in our own foreign trade with a rapidly decreasing merchant marine in that trade would seem to be the best possible proof that in time of peace it is not essential that a nation's own vessels carry its products to market.

The error most frequently made is the one which overlooks the fact that the great bulk of the world's commerce is carried by the tramp steamer. The national pride aroused by a great ocean liner has placed far in the shade the humble tramp cargo carrier doing so large a part of the carrying. It is these cargo carriers which constitute

the bulk of any merchant marine, and it is these carriers that are to be aided by any general remedy. The tramp steamer is not attached to any country by reason of the fact that the flag of that country flies over it. The tramp carrier is willing to go, and does go, wherever there is a demand offering a cargo at the highest freight rate. Many of the vessels carrying the English flag in the foreign trade never touch England. A considerable number of tramp steamers carrying foreign flags are engaged exclusively in carrying for the American trade, and never take a cargo to the home port. It is the fact of this great tramp tonnage obeying simply the unrestricted law of supply and demand that has enabled America to get along very well with so few vessels in the foreign trade. There is little or no complaint from shippers that there is not an ample supply of available tonnage. The carriage facilities at New York are equal to those at any port abroad, and a vessel may there be chartered for any foreign port. The English vessel owner will employ his vessel in carrying cargoes from the United States to the Orient to the extent that there is a demand for it.

The idea that a vessel is a commercial sales agent for the country whose flag it flies has little foundation in fact. The chief

desire of the owner of the tramp steamer is to unload his cargo and get an outward cargo as soon as possible. He does not direct the shipper where to ship, but carries the cargo where the shipper who will pay him best desires. The tramp carrier does not precede and build up trade, but follows when trade exists causing a demand for ships. It must be evident that the tramp steamer cannot spend time trying to encourage trade with the home country. It must wait until there is some trade established. People are in the transportation business, at sea as well as on land, as a business proposition, and have no scruples against carrying goods for any nation which will pay for the service.

A different situation would arise if tramp cargo carriers always went to and from the same ports with any degree of regularity. A vessel going simply to one point in China and back to San Francisco, which was for some reason bound not to deviate from this course, might to some small extent build up trade between those points. The vessels of Great Britain and Germany which in return for subventions must make regular trips between certain ports frequently do help the home commerce in this manner. But it must be remembered that the vessels so situated constitute an almost insignifi-

cant part of the world's tonnage. Only a few per cent of Great Britain's vessels are so situated. The great bulk of the world's tonnage is willing to go where demand is the strongest, and the arguments applicable to the few vessels bound to take a prescribed course, and which by carrying mails regularly do materially stimulate commercial relations, cannot logically be advanced as reasons for aiding generally a merchant marine which is certain to be made up to a very great extent of tramp cargo carriers. Suppose a thousand great cargo carriers were given to American owners. Is it not inevitable that they would seek business in the ports where there is now carrying done? They would be found to follow rather than create trade.

Little can be gained by quoting statistics of isolated cases in an endeavor to show that a greatly increased commerce follows merchant vessels to the country whose flag they fly. So many things may enter into that increase that the effect of the ship cannot be estimated. In the cases usually cited as American examples of small trade relations because of no transportation facilities, the condition is often attributable to the tariff in a large degree. Having levied a high tariff on the products of a country so that

it cannot profitably sell to us, it cannot take a very large amount of our materials in return. At any rate, all instances cited where marine carriage facilities are claimed to have built up commerce are cases where regular lines have been established and are no argument for aid to shipping in general, which is composed so largely of tramp carriers.

Considering the entire situation, the case made out in justification of direct aid to shipping interests in time of peace and with no view to possible hostilities is rather a weak one.

c. Carriage during wars abroad. On the other hand, the argument that America needs ships to carry her merchandise during time of hostilities abroad seems to possess considerably more merit. This point is usually dismissed by opponents of government aid with the statement that a large merchant marine in time of war is a source of weakness rather than strength, since a large naval force is required to protect it. This is a fair criticism, on the assumption that our own nation is one of the belligerents, but does not apply when we are neutral and a nation doing a large part of our carrying is engaged in war.

Suppose Great Britain, now doing about sixty per cent of our foreign carrying, were

to engage in a war with Germany, a nation which also carries much of our merchandise shipped abroad. It is fair to assume that our coastwise shipping would still be required there and could not be diverted to the foreign trade, even though suitable, without disturbing conditions at home. A considerable number of the vessels of both Germany and England would immediately be withdrawn from the carrying trade by their respective governments as naval auxiliaries under contracts which these governments have with the various lines. In spite of the Treaty of Paris stipulating for neutrality of the shipping of an enemy during time of war, there would inevitably be a war on shipping. If a large part of the carriers of these two nations were thus suddenly forced to withdraw when, as now, America carries less than one tenth of her foreign commerce, an injury to trade would result which in a comparatively short time might cause a commercial loss far in excess of the expenditure necessary to place the American marine on a much better footing.

This is by no means an imaginary and impossible situation or result. Take Great Britain's comparatively small struggle in 1899 with South Africa, a little state without a single privateer or cruiser. In that little

contest Great Britain took no less than two hundred and fifty steamships of one million tons from commerce for use as transports and supply boats. Congressman Grosvenor of the Merchant Marine Commission, in his supplemental statement filed February 24, 1906, gives some of the results arising from this withdrawal. He says:—

Freight rates were marked up thirty per cent in some cases. The withdrawal of the British ships on which we had rashly depended for our export trade reduced that trade everywhere. Not only did the United Kingdom take less of our wheat, flour, and like products, but the whole world took less and paid us less money for it. Our total export of breadstuffs shrank sharply from \$317,879,746 in 1898 to \$269,955,711 in 1899 and \$250,786,080 in 1900.

A number of other instances where trade decreased because of withdrawal of carriers were also cited. In this small foreign war with no hostile navy to prey on commerce the lack of carriage facilities was immediately felt in the United States. It seems reasonable to assume that in a contest like the one suggested America could not but suffer enormous losses commercially.

The suggestion of the danger above mentioned is often met with the statement that in such a case there would be a number of cheap ships on the foreign market for Americans to buy. Of course under the existing registry law

a ship thus purchased abroad could not come under the American flag. But even if the United States had free ships, it is highly improbable that any considerable part of the tonnage of a belligerent would be purchased by American capital. While a binding transfer may be made to a neutral, if the transaction is bona fide, a captured vessel which can be proved to have belonged to an enemy but a short time before is too frequently condemned, in spite of an alleged transfer to a neutral, to make very desirable the purchase of ships under such conditions. A need for a limited carriage independence in case of foreign wars in which we are neutral is one of the good reasons for endeavoring to encourage foreign trade shipping.

2. *National Defense*

a. Sailors for navy. Another argument of merit for the application of some remedy is that provision would thus be made for the national defense in furnishing an available source for supplying sailors and auxiliary cruisers for use in the time of war. Every nation needs many more men in its navy in time of war than in time of peace. It would seem far better to train part of these men while performing useful duties on merchant vessels than to train them en-

tirely on non-productive training ships. Our past has demonstrated that men from various walks of life can be trained for military service on land in a comparatively short time. This is not true in the naval service. Time must be spent in making a man a sailor and fitting him for other duties aboard ship.

During the Spanish-American War, when the American government took the vessels of the American Line for naval purposes, the foreign sailors aboard these vessels quit the service, naturally refusing to risk their lives in fighting for a foreign nation. None but those owing allegiance to America can be depended upon to fight her wars for her either on land or sea.

Admiral Dewey, in his report of November 23, 1905, to the Secretary of the Navy, says:—

Another benefit which would accrue to the navy from a large fleet of American-owned merchant vessels would be the great number of experienced sea-going men, including engineers and firemen accustomed to marine engines and boilers, who would form a valuable reserve from which to draw the men for manning auxiliaries.

A large merchant marine has always proved a "cradle for the navy."

b. Auxiliary ships. The navy must have additional ships as well as men when placed on active war duty. Each squadron must

have its scouts, colliers, ammunition ships, supply and refrigerator ship, hospital ship, repair and torpedo depot ship, dispatch boats and transports. If the boats necessary for these various purposes can to a considerable extent be kept busy along lines of production and used in the navy only when war demands, so much is gained. With an efficient foreign trade marine, there would probably be enough vessels in the foreign trade, for which there would be no demand during war time, to supply these various needs.

In our comparatively small war with Spain the United States government purchased ninety-seven vessels in addition to those chartered and loaned. The government immediately took advantage of its contract to take over the few American vessels available. The ships of the Transatlantic Line were at once chartered. Next were taken the four Southern Pacific liners. These vessels, manned and armed as auxiliary cruisers, performed valuable services, and their exploits, given by Mr. Marvin in his "The American Merchant Marine," were such as prove very good evidence of the material aid that may be expected by the navy from a strong merchant marine.

No nation without efficient seamen and a flourishing merchant marine has ever been

a very strong naval power. The contests of the world in the future will probably be decided largely on the sea, and in so far as a merchant marine will aid the navy, it is on a different footing from the ordinary industry when asking for government support.

B. REMEDIES SUGGESTED

1. *Free Ships*

a. Policy considered. A number of remedies looking toward the rehabilitation of the American merchant marine have been suggested. One which has long found many supporters among economists is the free ship policy.

The free ship policy is simply that the United States repeal its registry law of 1792 and allow shipowners in America to buy at low prices abroad the ships needed for our commerce, thus providing a natural, easy, and inexpensive way of securing a large merchant marine. No remedy of all those suggested is so easy of application. The free ship advocate points to the fact that when wooden ships were built more cheaply in the United States, the American marine thrived, but as soon as Great Britain began to build iron ships more cheaply than they could be built in America, the American merchant marine began to languish.

Unless shipbuilding is more important than shipowning it would seem to be a short-sighted policy that would purposely put our shipowner under a handicap by refusing to allow him to purchase a ship as cheaply as a competitor. England repealed her registry law in 1849, and allowed her subjects to purchase wooden ships where they could be purchased more cheaply. Her people were, therefore, enabled to buy in the cheapest markets; they could take advantage of the American Civil War, and get a large share of our ships at panic prices. All other nations realize the mistake of thus handicapping shipping, and allow their citizens to buy in the cheapest markets.

Germany is given as an example showing the successful operation of the free ship policy. Germany has made wonderful progress in her foreign trade marine, has rapidly passed America, and stands second only to Great Britain. The German nation realized that its shipyards could not produce ships so cheaply as England, and when the transition from wooden to iron ships came, Germans were allowed to purchase ships in the cheapest markets by the adoption of the free ship policy. Germany went to England for ships, and although Germany has been England's best customer for many

years, the Germans have placed themselves next to England in size and efficiency of foreign trade marine, while at the same time shipowning has been so stimulated and so many contracts have been given at home that German shipyards are now in a very flourishing condition, and have achieved a growth which has enabled them to become close competitors of England.

Germany and Great Britain have succeeded under the free ship policy both in developing shipbuilding and ship operation. Great Britain, however, did not adopt this policy until her iron shipbuilding industry was on a firm footing: so that her success cannot be attributed fairly to that policy, since she could build iron ships at home so cheaply that she had little to fear from foreign competition. Practically all of Great Britain's merchant fleet has been built at home, and accordingly is not the result of the free ship policy to any considerable extent.

It is claimed that if free ships were adopted, the vessels now owned by Americans and operated under foreign flags would immediately obtain American registry, which is now denied them; that American capital would again turn to shipping, relieved of the handicap of a largely increased first cost, and

that America would thus obtain a foreign trade marine with all the attendant benefits.

b. Objections. (1) *Would injure American shipbuilding.* The first objection which at once suggests itself is that such a policy would be fatal to American shipbuilding. At the present time America cannot compete with Great Britain in shipbuilding. That such is the case is due largely to the American protective tariff policy. Since shipbuilding is so essential if the country is to have a strong and independent naval footing, it is argued that to refuse protection to this industry while protecting so many others less essential would be a very unwise and inconsistent policy.

American shipyards employ nearly fifty thousand men, and some seventy-five millions of capital have been there invested under a protective policy. To throw the entire business open to foreign competition would necessarily seriously cripple the American shipbuilder, who is forced to pay high wages here. While free ships acted as a stimulus to Great Britain and Germany, conditions are different here. Great Britain could more than compete with America when the free ship policy was there adopted, because Great Britain could then build iron ships, for which the demand was greater, more cheaply than could the United States.

Germany is not under the same disadvantage as compared with Great Britain when it comes to wages, so that her shipbuilders are not in the same need of protection as are those of America.

(2) *Would not build up shipping.* A second objection, and one which appeals more strongly to the writer, is that a free ship policy would not build up the American foreign trade marine to any considerable extent. It has been shown that the existing condition of the foreign trade marine of the United States is not due entirely to the high original cost of ships. The life of a ship is of considerable length, and the high original cost being spread over a number of years, that handicap alone would probably not have proved fatal. It is significant that there has never been any demand by shipowners for a repeal of the American registry law. Builders would naturally be opposed to free ships, but if free ships alone would have furnished a solution, it is more than probable that owners would have demanded such legislation years ago.

In order to ascertain just what would be the effect of allowing foreign-built ships to obtain American registry, the Merchant Marine Commission sent a number of letters to various American corporations and indi-

viduals known to own ships operated under foreign flags. These letters requested the recipients to state whether they would transfer their vessels now under foreign flags to American registry, if permitted to do so. Almost without exception the replies published in the Report stated that American registry would not be accepted, if offered without condition, because of the increased cost of operation under the American flag. Many owners having vessels admitted to American registry had voluntarily placed them under foreign flags because of decreased cost of operation.

It will be remembered that in 1789, before our shipping was adequately protected, American bottoms were carrying a very small part of American foreign commerce, in spite of the fact that Americans were building the cheapest and best wooden ships in the world. Free ships are by no means omnipotent. The French marine declined to less than a million tons under a free ship policy.

A free ship policy would remove a handicap, but unless the statements as to cost of operation made by a large number of ship-owners before the Commission are untrue, that policy alone will not effectually place American shipping where it can successfully compete in the foreign trade.

2. *General Discriminating Duties*

a. Policy considered. A policy which has found favor with many who have considered the shipping question, notably Captain W. W. Bates, is the imposition of discriminating duties. This policy would simply be a return to the old system under the law of 1789, under which the American marine made such excellent progress. It is proposed to raise the present duty on goods imported in foreign bottoms, or allow a rebate on the present duties when goods are imported in American bottoms. The latter plan would have much the same effect on the national treasury as a subsidy.

A strong argument for discriminating duties is that they have been tried and proved successful. It should be remembered, however, that during the time when discriminating duties were so successful, the United States was importing more than was exported, and so the discriminating duty was operative on a large part of her commerce.

By reason of the discriminating duty the shipper abroad has an interest in giving his cargo to an American vessel, and thus gives it the preference for the home-going cargo, so important to the cargo carrier of a nation whose exports always are far in excess of

imports. If an additional duty were imposed, it need not necessarily increase freights. The American carrier could carry under existing rates, if always sure of a home cargo. The greater the success of the system, the less the additional duty imposed; so the duty would gradually approach the normal with the result of having transferred freights to American bottoms by giving the American carrier the preference. The policy would only be affording to shipping the same protection which is now extended to other industries.

b. Objections. (1) *Probability of retaliation.* The first great objection to discriminating duties is the probability of retaliation resulting in the upsetting of commercial relations. There are now in existence some thirty treaties with all the principal countries of the world, in which the United States guarantees reciprocity in shipping regulations. These treaties may be abrogated, most of them by one year's notice, but it is reasonably certain that a return to discriminating duties would at this day lead to immediate reprisals. Germany has already shown her inclination to retaliate because of the American tariff.

In January, 1872, France tried to reëstablish discriminating duties, but other nations,

including the United States, at once retaliated against French shipping, and in July, 1873, France repealed her discriminating duties and returned to free ships. Foreign nations would easily be able to retaliate effectively, for the reason that we are now more largely exporters than importers. If the foreign nations simply imposed counter-vailing duties, American vessels would be little better situated than before. Good feeling is a valuable commercial asset, as has recently been illustrated in the Chinese trade. Any such direct discrimination against those having commercial relations with us could not fail to arouse hostility.

This objection is usually met with the statement that foreign nations did not retaliate before. Since so large a part of our exports is raw materials or else what would come under the head of necessities, it would frequently be difficult for other nations to retaliate. For example, Great Britain would be loath to levy a discriminating duty on American breadstuffs, thus increasing the cost of a necessity to her people.

(2) *Would operate unequally.* A second objection is that a discriminating duty operates unequally. It makes no allowance for distance traveled or value of cargo. A vessel might come three thousand miles, while

another might come but three hundred, and still, if the cargoes were of the same kind and nature, the one coming the longer distance would receive no greater discrimination in its favor. On the other hand, one cargo might be so valuable that a ten per cent duty discrimination would be far in excess of the freight charge, while in another cargo of equal bulk, from the same point, the discriminating duty might not be sufficient to create a preference which a foreign carrier would not meet by a reduction in freight.

(3) *Many imports not dutiable.* A third objection is that a large part of our imports is on the free list, and unless the free list were abolished discriminating duties would not apply to them. In 1905 forty-six per cent of our entire imports came in free of customs duty. This percentage is based upon value, and in bulk probably sixty per cent were duty free. Under our former policy in 1789, nearly all of the imports of the United States were subject to duty, and so discriminating duties applied almost universally. It is urged that since nearly all of the goods on the free list are raw material or food products, any attempt to tax them for shipping would be inexpedient and unpopular.

3. *Discriminating Duties in Indirect Trade*

a. Policy considered. A third remedy suggested is that of discriminating duties in the indirect trade. This plan would allow a British vessel to carry goods from any British port to America on exactly the same terms as an American vessel, but would levy a discriminating duty on goods brought by a British vessel from any other than a British port. This policy is aimed at countries whose vessels not only carry their own commerce with the United States, but also invade the carrying trade of other countries sending goods here. In so far as applicable, these duties in the indirect trade would give our vessels the preference just as the proposed general discriminating duties would do.

b. Objections. (1) *Probability of retaliation.* This plan is also objected to on the ground that it would lead to retaliation. However, it is by no means probable that this would result. Many of our treaties do not apply to reciprocity in this indirect trade. A nation has a right to carry its own goods to market, and any attempt to prevent it would at once appear to be unfair. The right of a nation to carry the goods of a third to our ports on the same terms as an American vessel is not apparent. If any retalia-

tory measures were taken, they would probably be in kind, and since we have practically no indirect foreign carrying trade, they would work no injury. As far as probable retaliation is concerned, discriminating duties in the indirect trade have a decided advantage over general discriminating duties.

(2) *Ships would be transferred.* This plan might be rendered largely ineffective by a transfer of ships. A British or German vessel now carrying goods from China to the United States might be transferred to the Chinese, if discriminating duties on indirect trade were levied, and thus escape the duty while remaining in the trade to compete with the American carrier.

The same objection with reference to inequality of operation because no consideration is taken of distance sailed or value of cargo carried is of course applicable to discriminating duties in the indirect trade, as is also the objection that so many imports are not dutiable, and would have to be made to pay a duty to render the plan effective.

4. *Naval Subventions*

a. Policy considered. Another proposed plan is that of extending the Postal-Aid Law of 1891, and granting liberal subventions to vessels carrying the mails which would con-

form to certain requirements relative to speed, and would be so constructed that they easily might be changed into auxiliary cruisers during time of war. It is thought that by bettering the mail service between ports where the service is now poor or does not exist, commerce would be largely increased. Both England and Germany have adopted such a plan, and it is, therefore, rendered highly improbable that America will be able to have under her flag these fast mail liners unless she enables her vessels to compete by thus giving government aid.

b. Objections. (1) *Class legislation.* Such a plan is criticised as apt to give rise to class legislation in favor of a few large companies. The giving of grants largely in excess of payment for services rendered has frequently proved to be poor economy on the part of the giver.

(2) *Could not build up general carrying trade.* In any case the proposed aid would in no wise solve the problem of creating a foreign trade marine. Only a few large and swift carriers would receive this aid, and however proud we might be of these fast liners, it is clear that their existence could not materially build up the general carrying trade so largely done by vessels of the tramp class.

5. *Subsidies*

a. Policy explained. The plan which has been urged most strenuously during the last four sessions of Congress is that of a general subsidy to all vessels operating in the foreign trade of the United States. It is proposed to restore the American foreign trade marine by means of grants from the national treasury direct to the ship-operator without any service given therefor. The advocates of this plan aim to have the government give an amount which shall compensate the American shipowner for the disadvantage he is under by reason of higher cost of ships and labor as compared with his foreign competitor.

This remedy would aid the shipowner directly, and if made sufficiently attractive would certainly cause ships to be built and operated under the American flag. It is urged that this is simply extending protection to shipping interests, eventually rendering the shipping industry able to keep the vast amount of freight money at home, and furnishing a valuable adjunct to the navy. This method is in no respect contrary to our treaties, and so, while stimulating commerce, would arouse no commercial hostility.

b. Objections. (1) *World's experience does not warrant subsidies.* (a) *Great Britain's policy.* An argument very frequently advanced is that other nations grant subsidies, and by so doing have built up their foreign trade marines, and that unless that plan is adopted here, America cannot hope to compete. Since Great Britain has attained such supremacy in maritime affairs, the advocates of subsidies most frequently point to that nation as an example of what subsidies have done.

Great Britain has made wonderful progress, and last year had a registered tonnage according to Lloyds of 17,009,720 tons. However, the assertion that this condition is due to subsidies is entirely without foundation in fact. Great Britain pays no general subsidies out of public funds to shipbuilders, and has never granted general navigation bounties. Owing to the fact that the British Empire has its parts distributed in all quarters of the globe, it early became a political necessity for England to have means of communication with the colonies. Therefore since 1840 Great Britain has been very liberal in granting subventions to vessels which would agree to carry the mails regularly to and from certain points. From 1840 to 1900 Great Britain paid \$283,906,000 in

so-called subsidies, principally to the Peninsular and Oriental Steamship Company with lines to India, China, and Japan. These mail payments were made with the primary object of securing steamers of great power and speed, which, owing to their large consumption of coal, could be operated only at a very high cost. The requirements of these mail contracts are so strict that few companies care to compete for them, although they are awarded by competitive bidding. Many vessels following the same route as vessels receiving these mail subventions do not care to bid for the subventions, preferring not to be bound to make a high speed, and to be able to leave a port when most profitable. It is evident that to be forced to make a certain schedule and to leave whether a cargo is available or not is in many cases far from profitable.

Great Britain has also granted naval subventions to certain vessels built in conformity with naval requirements. These vessels must be maintained at an admiralty standard, must be of high speed, and held absolutely at the disposal of the Admiralty when required for naval purposes. The construction thus required takes some of the space which would otherwise be available for cargo, and the speed requirement makes necessary

a larger original expenditure and also greater coal consumption.

These payments in the form of mail and admiralty subventions are evidently by no means gratuities similar to the grants under a general subsidy system. Great Britain has many other lines running over the same course as the vessels receiving these subventions and competing directly. Her Anchor, Guion, Monarch, National, Wilson, Sumner, Beaver, Bristol, State, and Arrow lines never shared in these subventions. More than ninety-five per cent of Great Britain's merchant fleet have never received any subvention whatever. Of course some of the companies receiving subventions for their fast liners in the mail service also own cargo carriers, but the indirect effects of Great Britain's subvention payments, for which so much is claimed, cannot be large. Whenever less than five per cent of Great Britain's foreign trade marine have received any subvention whatever, and whenever the subvention has always been granted for services rendered under contracts let by competitive bidding, any conclusion that Great Britain's splendid merchant marine is the result of a subsidy system is clearly without foundation in fact. A subsidy to a line's competitor would be a rather poor source of income to

the line not aided. Deducting the postal receipts for carriage of the mails and the amount saved in naval expenditure, the total of Great Britain's so-called subsidies is very materially diminished.

The causes of Great Britain's success are natural and not legislative. Her development has demanded carriers by sea much the same as America's has required carriers by land. Realizing that demand, Great Britain repealed her navigation laws, thus allowing free ships, and removing all unnatural restraints upon shipbuilding and shipowning. Her free trade policy did not handicap the builder by making his materials high in price, neither did it by restricting imports make a home cargo difficult to obtain.

By the early establishment of the iron and steel industry, Great Britain obtained a lead in the construction of iron ships. English capital found employment in shipping as profitable as along other lines. In fact, practically all the causes which resulted in the decline of the American foreign trade marine were absent in Great Britain; so that British capital naturally turned to ships, while American was withdrawn to be invested in railroads and manufactures.

(b) *Germany's policy.* It is true of Germany,

as of Great Britain, that she has never had a policy of paying money from the national treasury as a general subsidy pure and simple. Germany has adopted a policy very similar to Great Britain's relative to giving subventions to vessels carrying the mails. . .

The government desired a mail service with its colonies in China and Africa. Therefore, in 1885, a law was passed granting a mail subvention of \$1,047,000 a year for fifteen years to the North German Lloyd for a mail service to China, Japan, and Australia, and requiring that the subsidized ships be built in German yards. In 1890 another subvention of \$214,000 a year was granted to a German line to East Africa. In 1898-99 the Reichstag renewed both subventions, increasing the Asiatic to \$1,330,000 and the East African to \$390,000.

Germany's subventions are, therefore, comparatively small. They are given, as are Great Britain's, for services rendered in furnishing a needed regular mail service. It is folly to attribute Germany's merchant marine to a payment of less than two million dollars annually for actual services in carrying the mails, which payment is limited to a few fast mail steamers. This small payment based so largely on services certainly could not account for the great bulk of Germany's mer-

chant marine, which never received a dollar of the subventions directly or indirectly. Some of Germany's fine liners of the North German Lloyd may be attributed to the mail subventions, but the reasons for Germany's fine merchant fleet must be sought elsewhere.

Germany sought growth along natural lines, and not by means of gifts or bounties. When it was realized that Germans could not build iron ships so cheaply as Great Britain, the free ship policy was adopted. Germany also allows all shipbuilding materials to come in free of duty, so that with free ships and no duty on materials the German producers are in free competition with the world markets. Germany has endeavored to remove all handicaps from shipping, and has allowed shipbuilding material a very cheap rate of transportation on the government railways. With the great industrial growth of Germany since 1880 came a demand for shipping facilities, and with a scientific tariff and few restrictions, Germany has been able to supply that demand in large part herself.

(c) *France's experience.* Having seen that the two nations possessed of by far the finest foreign trade marines never have given general subsidies to cargo carriers, it is interest-

ing and instructive to turn to France with her general subsidies to cargo carriers. France may be cited as the only nation which has adopted the plan, proposed for the United States, of giving general subsidies to all cargo carriers with a view to building up a foreign trade marine. Italy has given some general subsidies, but in return has taxed shipping at rates high enough to force it to pay far more than its own subsidy, and in the final analysis, therefore, Italy's system has been rather a tax than a subsidy.

Finding retaliation on all sides to her discriminating duties, France repealed them in 1873, and in 1881 inaugurated her system of giving a general bounty to shipbuilders and also to shipowners. In 1881 France had a tonnage of 914,000 tons, and in 1890 this tonnage had increased to 1,104,000. The act passed in 1881 was to be effective for twelve years, and was admittedly unsatisfactory. While the tonnage increased somewhat, the shipping interests generally were simply rendered more helpless and dependent, and ships were constructed and operated with a view solely to the receipt of the bounty. This plan during the twelve years the act was in force cost the French government the sum of \$19,503,701. French advocates of the subsidy plan attributed its failure to

the fact that the act was limited as to time, and argued that this limitation prevented capital from investing freely.

In 1893 another bill granting still larger subsidies for construction and navigation was passed. Those responsible for this bill argued that a sailing vessel should receive a larger subsidy per mile because unable to travel as fast as a steamer, and accordingly the subsidy per thousand miles sailed was 32.81 cents per ton, while a steamer received but 21.23 cents. This at once led to an increase in the number of slow sailing vessels while other nations were building efficient steamers. M. Thierry, in the "Journal des Économistes" for 1901, states that while from 1886 to 1896 the English had increased their steam tonnage fifty-three per cent, and the Germans had increased theirs one hundred and seven per cent, the French during the same period had experienced a loss of 5347 tons of steam tonnage in spite of the subsidy granted. In 1899 France paid \$7,632,242 for mail, construction, and navigation bounties, and received in return a smaller increase in tonnage than any other of the great nations. Since French bounties were paid according to distance sailed, French captains made trips to distant ports to get a cargo, in ballast if necessary, for the

bounty enabled them to pay a dividend in such cases.

The English appointed a committee to investigate the French system, and that committee in condemning it said that the French government frequently paid three thousand six hundred pounds to have a French vessel earn five thousand five hundred pounds.

France has continued her subsidy system by a law passed in 1902, and last year her subventions for all purposes amounted to eight and one half million dollars. The French marine has slightly increased in tonnage, but the increase is not in efficiency, has been at a very great expense, and a continuance of government aid is as mandatory at present as when the policy was first inaugurated in 1881. The experience of France clearly demonstrated that the subsidy calls many useless ships into operation, and the regular earnings of the business are thus so diminished as largely to overcome subsidy benefits. Even in increase of tonnage, France has failed to keep pace with other nations which give no general subsidies whatever.

(d) *Experience of the United States.* The United States has never had any system of general subsidies, so that her past experience throws little light on the subject except as

showing the difficulty of rendering permanent aid by means of a subsidy.

On March 1, 1845, a law was passed authorizing the Postmaster General to make contracts with American ocean carriers for transportation of the mails upon terms which amounted to a payment in excess of an equivalent for services rendered. No contracts were made until 1847, and during the following ten years the American government paid the sum of fourteen and one half million dollars in accordance with mail contracts. The principal line entering into a contract was the Collins Line to Liverpool, in competition with the Cunard Line. The Collins Line was operated from 1850 to 1857, and received mail payments of four and one half million dollars. It was, however, not financially successful, and ceased operations as soon as the government aid was withdrawn.

In 1857 all mail contracts granting aid were abrogated, and none were entered into until 1866, when a contract was made with the Pacific Mail Company for carriers to the Orient. This company received \$4,583,333 from the government during the next ten years. However, it was discovered that, in 1872, the company had expended one million dollars in illegal efforts to obtain an

additional grant of five hundred thousand dollars annually from Congress. This brought the whole plan into disfavor, and no payment was made by the government after the expiration of the contract in 1877. Our trade with the Orient showed no material increase during the period of this government aid, and no appreciable benefit to the United States can be traced to it.

In 1891 a postal-aid law was passed authorizing liberal contracts with American vessels for carriage of the mails. Six American steamship lines have entered into contracts under this law, four on the Atlantic and two on the Pacific. This law is still in operation, and the lines receiving government aid now receive the sum of \$1,400,000 annually, and have made some headway. The American Line to Europe, the Ward Line to Cuba and Mexico, the "Red D" Line to Venezuela, the Admiral Line to Jamaica, and the lines of the Oceanic Steamship Company from San Francisco to Hawaii and Australia, all have been aided materially by the Postal-Aid Law of 1891.

There is nothing in the experience of our own or other nations which affords any argument for a general subsidy system. Even if mail contracts have been beneficial, it by no means follows that subsidies on a large scale

would prove wise. Great Britain and Germany have achieved their great success in shipping without general subsidies. No nation has ever succeeded in building up a permanent, efficient marine by a subsidy system. The experience of the United States has not been very satisfactory, to say the least, in the case of some of its limited mail subsidies.

(2) *Unavailing because not permanent.* Another objection to a subsidy is that any attempt to build up an efficient and permanent foreign trade marine by this policy would be unavailing because there is no guarantee of its permanency. This remedy does not attempt to remove the existing handicaps upon shipping by taking away the causes, but simply aims to equalize conditions by paying American owners a sum sufficient to make up for those handicaps. It is said that shipbuilding would be so increased that by standardization and improved methods America would eventually be able to compete freely with any foreign builders. Such a result is possible, but there is no claim that a considerable number of ships will remove the increased cost of operation of American ships, which is so confidently set forth as the most efficient cause why Americans do not have the ships owned by them registered under the American flag.

Each ship is in a sense a unit, and ship-operating is not to any considerable extent subject to the law of increasing returns.

A large part of America's foreign trade marine has passed under foreign flags. Why would this not occur again, if the subsidy were withdrawn? There is no reason to believe that any temporary subsidy measure would build up a permanent trade marine. France has been giving general subsidies for twenty-five years, and now finds subsidies as necessary as ever with her shipowners continually clamoring for new and larger grants. American capital would be slow in entering a business liable to prove a failure when government aid ceased, unless assured of permanent aid.

That a subsidy system would be permanent in this country is highly improbable. A subsidy is popularly considered as a species of favoritism. While the present tariff may be referred to as just such favoritism allowing the industries protected to exploit the general public, this exploitation has been so long tolerated because it is indirect in operation. It is unquestionable that any legislation giving, in the form of a bounty, the amount of money which the United States Steel Corporation has been able to obtain from the public by reason of the tariff, would

have been condemned unhesitatingly years ago. The exact amount paid in subsidies would be generally known, and this amount of course would grow larger as the system became more successful and the number of recipients increased. Popular sentiment would eventually demand that the grants cease. The way in which the former grants made by the United States have been withdrawn after a few years is an indication of what would be the fate of any general subsidy measure.

(3) *Wrong on principle.* Little on principle can be said in favor of shipping subsidies. The argument for them is based upon the assumption that there is a necessary difference in cost of operation favoring the foreign shipowner. So far as subsidies simply make up this necessary difference, they are lost economically, except in their effect by furnishing a protection against the contingency of war. The subsidy would not remove the so-called necessary difference in ship operation, since it does not attempt to remove the causes of that difference. Labor and materials would remain high. The American shipbuilder having a monopoly under the registry law would take to himself just as much of the bounty on navigation as he could by keeping ships as high as possible,

just as the French navigation bounties found their way into the pockets of shipbuilders as soon as it was enacted that subsidized ships must be built at home.

The tariff has aimed to reserve the home market for the home producer to at least a limited extent. In so doing it has encouraged American enterprise indirectly, but a direct subsidy has a far greater tendency to undermine private enterprise by its very dependence upon the public treasury. An American manufacturer may be permitted to obtain one hundred thousand dollars per year from the public by reason of the tariff, but he does not feel that he is dependent upon the government. If the same sum were given him directly from the treasury as a bounty, he would then immediately realize his dependence upon national aid, and seek to increase his receipts by obtaining further grants rather than by increasing the productivity of each unit of his capital.

A system of direct grants without any equivalent would be of doubtful wisdom under our partisan form of government. While the "Treason of the Senate" is not so general as is sometimes intimated, it is unwise to adopt a policy of direct grants to special interests when no consideration is given in return. That these interests will make increasing

and more insistent demands for government aid is more than probable, as was shown in the case of the grant to the Pacific Mail Company. The influence of special interests with direct financial considerations involved has so frequently been in evidence that it is almost certain that eventually a general subsidy policy would be the cause of the making of unwise and extravagant, if not corruptly obtained, appropriations out of the public treasury.

(4) *High cost.* Another very great objection to a general subsidy would be the necessary high cost to the government. As has been suggested, since there is no claim that subsidies remove existing handicaps, except temporarily by subsidy payments, it is more than probable that the policy would be a lasting source of expenditure unless the aid offered were arbitrarily withdrawn. The more successful the system and the more the vessels availing themselves of its gratuities, the greater would be the cost. An attempt to limit the amount to be given would necessarily limit the effectiveness of the system, if the original subsidy grants were reasonable. Such an attempt would also lead to combinations to reduce the number of vessels so that the subsidy might not be distributed among too many ships. France, after a quarter of

a century's experience, found that when one subsidy bill expired, the government, instead of being able to withdraw the subsidy, was met with an ever increasing demand for larger gratuities.

It must be remembered that any successful policy on the part of the United States would be met along similar lines by foreign nations. They certainly will not see their merchant marines languish because of lack of direct government aid, without making some strong and sustained effort to remedy that condition. The British Parliament investigated the subsidy system when France adopted subsidies, and the only reason Great Britain made no attempt to meet these direct grants was that the French subsidies had proved ineffective. Great Britain's non-subsidized ships were more than able to compete with the French bounty-fed vessels. Had those bounties proved effective, Great Britain would most certainly have endeavored to neutralize them, as would have Germany and other powers. It is evident that Great Britain, with her cheaper cost of ships and ship operation, free trade, and large marine, might give far less aid than the United States and still almost entirely neutralize the effect of the grants of the latter. A successful marine is far more difficult to

build up than to maintain when once firmly and naturally established. Especially is this true when the established and successful marine has great advantages in the original cost of production and also in operation. The British foreign trade marine is already an immense success, and any attempt to supplant it by a system of bounties is certain to meet with the greatest difficulty.

No one can estimate with any degree of certainty the amount that would be necessary to place the American foreign trade marine upon a satisfactory footing. The Hanna-Payne Bill, introduced in 1898, was prepared carefully, and the subsidies therein proposed were said to have been as small as could be given, if capital was to be attracted to investment in shipping. The subsidy proposed was aimed simply so to equalize matters as to put the American shipowner on a footing where he could compete without handicap. Nevertheless, W. W. Bates, former United States Commissioner of Navigation, in a carefully prepared table in his "American Navigation," shows that, even under the Hanna-Payne Bill, to have subsidized a fleet sufficiently large to carry our foreign commerce in 1900 would have cost \$40,278,351. The demand for tonnage would naturally increase from year to year. By 1925

to subsidize fifty per cent of the tonnage necessary to carry American foreign commerce would cost, according to Mr. Bates, the sum of \$51,606,625.

It would require a merchant marine four times as large as that of France to carry all the foreign commerce of the United States, and France is now paying eight and one half million dollars annually in bounties. Great Britain is spending about six million dollars annually, aids but a few per cent of her shipping, and makes no attempt to give general subsidies. When there is taken into consideration the probability of subsidies being given to meet those of the United States, if successful, the immense volume of American foreign commerce and our existing disadvantages, the conclusion is inevitable that any successful general subsidy system would involve an expenditure of such magnitude as to be unjustifiable on purely economic grounds.

c. Conclusion adverse to subsidies. There is no question that a general subsidy, if sufficiently large, would result in an increased foreign trade marine, but there is nothing in the experience of our own or other nations to justify any faith that permanent benefits would result from a subsidy policy. Discriminating duties did work well at one

time in the United States, but that fact presents no ground from which to argue for aid by a subsidy. The American people would not tolerate a permanent subsidy policy, whereas discriminating duties were received with favor because acting indirectly by giving the American vessel a preference for a home cargo. A subsidy is apt to weaken rather than stimulate individual enterprise, since it makes the recipient feel his direct dependence upon the national treasury. Everything points to the fact that a subsidy would be a tremendous, permanent, and ever increasing source of expenditure by the Federal government without sufficient justification upon any economic grounds. Its only justification would appear to be in a provision for a sufficient marine to make the nation independent and strong on the sea in time of war; and even this justification fails, if there is any better plan to attain that end.

V. POLICY RECOMMENDED

THE writer is of the opinion that some measure should be taken to increase the foreign trade marine. It is evident from the long-continued decline that under existing conditions there is little probability of a considerable increase of American foreign trade shipping unless something is done to equalize conditions to a certain extent. As previously intimated, the necessity during time of war, for purposes of defense and commerce, of a partial shipping independence places national aid to shipping on a different footing from aid to other home industries.

A. FREE SHIPS IN FOREIGN TRADE

One of the first steps which should be taken is to allow free ships in the foreign trade. There is no possible justification for longer refusing to allow an American to buy abroad in the cheapest market a vessel for use in the foreign trade under the American flag. The protective policy certainly has little justification when applied to a foreign product which is not produced at all in this country. Our shipbuilders are producing

no ships for the foreign trade, and so are not competing with foreign builders. To grant free ships in the foreign trade would in no way prejudice American builders who are not now building any ships for that trade. Certainly it is rather difficult to ascertain why building ships for the foreign trade is so much more important than operating them in that trade.

There is great reason to doubt whether the free ship policy should not also be extended to the coastwise trade. To limit a foreign-built, American-owned ship to the foreign trade would have a tendency to discourage the purchase by Americans of ships for that trade; just as the prevention of a vessel constructed in part of imported, duty-free steel from use in the coastwise trade has resulted in the use of higher priced American steel. However, on the whole, it is probable that absolutely free ships would severely cripple American builders. Some shipyards are essential for naval strength, and the coastwise shipping has made a demand for American-built ships, which has been met by a large investment of capital. To remove now all protection would be a doubtful policy, although later the American shipbuilder will in all probability reach a point where he can compete with foreign builders, and when this point

is reached the policy of free ships should at once be extended to the coastwise shipping.

B. FREE BUILDING MATERIALS

All tariff on shipbuilding materials should be unconditionally removed. The existing tariff on shipbuilding materials has been retained without any possible excuse. When American steel corporations can pay the freight and deliver steel plates abroad from eight to fifteen dollars per ton cheaper than they will sell to American shipbuilders, something is radically wrong. Such corporations no longer belong to the "infant industry" class, and are simply abusing the protective policy. Shipping is too important to be placed at a disadvantage for the benefit of a few special interests.

The materials imported should be available for use in any vessel, coastwise or foreign. Why should the fact that a few tons of steel purchased abroad have been placed by an American builder in an American vessel prevent that vessel from freely entering the coastwise trade? Such a discrimination was clearly made with a view to compelling the use of the higher priced American steel. Much more of the tonnage in the coastwise trade now would be of steel, had

not the shipbuilder been placed at an unfair disadvantage by being forced to pay almost any price quoted by American steel and iron companies. A removal of such duties would not result in large importation of steel and iron for ships, but simply in a purchase by the shipbuilder at home for a reasonable price based upon fair competition instead of a practical monopoly.

C. AN INTELLIGENT APPLICATION OF THE POLICY OF THE LAW OF 1891

An intelligent application of the policy of the law of 1891 would be wise. That law authorized the Postmaster General to make liberal contracts for carrying the mails. Vessels entering the service must be constructed in the United States under the superintendence of the Navy Department, so as to be readily convertible into naval cruisers. The crews of these mail steamers must be at least one fourth Americans for the first two years, one third for the next three years, and one half thereafter. Every steamer must make a required speed, varying, according to the type of vessel, from twelve to twenty knots.

Such a policy is very similar to the one adopted by Great Britain, Germany, Japan, and all nations having fast mail steamers.

It is not a subsidy policy, properly speaking. Contracts are let by competitive bidding, and the government receives mail services and naval aid in consideration for its grants. In view of the fact that so many nations are making these very liberal contracts with ocean mail carriers, some aid seems almost essential, if any considerable mail service by means of American vessels is desired.

The Spanish-American War showed that the lines subject to compulsory naval service were of great value as auxiliaries, and on the whole the policy of the law of 1891 has worked well in the case of the six American lines now operated under it, and the same policy has also proved beneficial in foreign nations. Great Britain and Germany are extending rather than curtailing the application of that policy, although both have given it a long trial. Of course these contracts should be awarded carefully, with a view to actual services rendered the government. Such a policy at best could not create a large cargo-carrying foreign trade marine, but would encourage the construction of some fast mail ships which might easily be converted into valuable auxiliary cruisers.

D. DISCRIMINATING DUTIES IN INDIRECT TRADE

If free ships and free building materials would solve the problem and result in a reasonably large foreign trade marine, no further aid should be given. As a general principle, it is unwise to increase the number of special interests directly or indirectly aided by legislative discrimination. As far as carrying our goods or saving freights in time of peace is concerned, the means above mentioned would seem to be all that can be justified from an economic standpoint. However, as before stated, a strong marine is essential to furnish sailors and auxiliaries, and also to prevent too great a loss to our commerce in case some nation or nations doing a large part of American foreign carrying should become involved in a lengthy war. The nation entirely dependent upon others for the carrying of all of its foreign commerce can seldom be a strong naval power, and is too much subject to loss in case of a foreign war in which it is perfectly neutral. It is for these reasons, and not simply for the saving of freights, that any further measures should be taken.

Nearly all free ship advocates stop with free ships; but, unless there was gross misrepresentation before the Merchant Marine

Commission, high cost of ships is not by any means the only cause of our present condition. No reason is given by free ship advocates why so many American-owned ships have been transferred to foreign registry, when they already had American registry. The only plausible reason is the one given by the shipowners, namely, that the cost of operation is so much less under foreign flags. This being so, free ships alone, while a long step forward, will not build up the United States foreign trade marine under existing conditions. The time would probably come when the resources of the nation would be so developed that capital would naturally turn again to the sea, but there is nothing to warrant the belief that such will be the case for a very long period, unless some legislative action is taken.

A means which would apply the needed stimulus is discriminating duties in the indirect trade. This would be applying our old policy of discrimination in favor of American carriers against a vessel carrying goods between America and some country other than the one whose flag it flies. This plan is one that could not easily be rendered ineffective by any reasonable retaliation, for every nation would still have a right to bring its goods here and take ours home.

If a foreign trade marine can in any way aid commerce, that aid will certainly be given most effectively in our trade with our sister republics of this continent and the great neutral markets of Asia. It is just these powers which have no merchant fleets, and whose carrying is done by other carriers engaged in this indirect trade. American trade with the Chinese Empire last year exceeded eighty-one millions. Great Britain alone has now in our indirect carrying trade fifty steamship lines, employing about four hundred vessels of more than one million tons, and earning annually sixty million dollars in freights. If the United States could get a considerable share of the carrying now done by carriers other than those of the country from which the goods come, there would be an immense increase in the American foreign trade marine.

A discriminating duty of a sufficient amount would give the American carrier the preference for the home cargo, so essential to the carrier of a nation keeping its imports relatively small by high tariff duties. Assured of a home cargo, the American carrier need not be given higher freights than those now paid. Ships would to some extent be transferred to evade such a law, but a strict penalty rigidly enforced might effectively

prevent such transfers, except when made in good faith. Under the free ship policy proposed, there would probably be a considerable amount of this foreign tonnage in the indirect trade transferred to American owners.

The great objection to this plan lies in the fact that so large a proportion of the imports from these nations having no carriers of their own is on the free list. In the American trade with China fifty per cent of our imports are not dutiable. A still greater proportion of the imports from the South American republics is on the free list, approximately eighty-two per cent being free of duty. To apply effectively the discriminating duty policy to the indirect trade would require that the free list be abolished so far as goods carried by foreign carriers in the indirect trade are concerned. While naturally such a step is very undesirable, it need not necessarily be attended by any evil consequences, if not applied too suddenly. If discriminating duties in the indirect trade were simply applied to goods now dutiable, later, when American carriers were sufficient to do the work, the policy might be extended to goods not at present paying duty, thus gradually giving to American carriers this valuable share of the carrying trade now in the control of na-

tions having a tonnage far beyond the needs of their own commerce. It is not possible for a large foreign trade marine to suddenly spring into existence. One must come gradually. A gradual application of discriminating duties to indirect carriers would force them out of that trade, and at the same time would allow opportunity for the ownership so to adjust itself that but very little of this commerce need be sent in a vessel to which the duty would apply.

Such a policy would inevitably force foreign carriers out of this indirect trade, and might become a permanent policy without arousing popular hostility. Some of these nations would in time come to have carriers of their own, but the probabilities are that the increase of trade with them will be such for many years as to provide for a great amount of American tonnage. This plan will not give American ships a monopoly in the carrying of all of her imports and exports, and none is needed. If there is an efficient foreign trade marine carrying a reasonable share of this commerce, nothing more is essential either for the commercial or political welfare of the country. In case of a great foreign war, it is probable that the demand for shipping would be lessened, so that our foreign trade marine would then be suffi-

cient to prevent the extraordinary loss which might occur, if the country were entirely dependent.

E. MEASURES PROPOSED SATISFACTORY

The measures proposed should be satisfactory from the point of view of all parties interested, even considering the present protective policy of the United States.

1. *Liberal to Shipbuilder*

a. Gives him monopoly in coastwise trade. The shipbuilder would be given all the aid to which he can reasonably lay claim. He would still be given a monopoly in the construction of all the vessels needed in the American Great Lake and coastwise marine. Since this tonnage had reached 5,441,688 tons in June, 1905, it would appear that this monopoly alone to the American builder is rather a liberal protection.

b. Gives him monopoly in vessels receiving subventions. An American builder would have, in addition, a monopoly in the building of the fast vessels to be operated as mail ships subject to duty in the navy, under the policy of the Postal-Aid Law of 1891.

c. Enables him to buy cheaper materials. The builder would further be aided by being permitted to import shipbuilding materials

free of duty without the present restrictions on such importation. He would no longer be forced to pay a tribute to the gigantic steel interests which is not exacted from his foreign competitor. This would at once enable him to build ships much more cheaply for the coastwise trade, and would be a long step toward the place where he could compete successfully with the foreign builder.

d. Would give him large repairs. The item of repairs is always a large one to the shipowner. Every ship which sees much service at times has large repairs put upon it. In the course of a score of years the repairs on a vessel may amount to as much as the original building of the vessel; especially is this true with certain types of vessels. The natural and usual course is for the shipowner to lay up his vessels for repairs at home. Therefore, even if foreign trade vessels were built abroad, the item of repairs for a large merchant fleet would be of great value to American builders who are now neither repairing nor building. If repairs could be obtained much more cheaply abroad, ships would of course largely be repaired there, just as they are now foreign built. But it is reasonably certain that a fair share of the repairing on a fleet owned by Americans

and operated under the American flag would be done at home.

e. Encourages shipowning habit. The American builder would be benefited by anything which encouraged the shipowning habit, as would the means suggested. When capital has once turned to shipping, there is always a tendency to increase efficiency by the purchase of more ships. The vessel-owner craves more ships just as the farmer does more acres. Germany found that the increase of shipowning and the shipowning habit created such a demand for ships that, although many ships were built in England because of cheaper cost of construction, many orders also found their way into the yards at home. Thus any large increase in the foreign trade marine would eventually stimulate shipbuilding interests at home.

Although practically every shipbuilder assures us that any modification of the American registry law looking toward free ships would be absolutely fatal to him, a disinterested party might more reasonably criticise the policy here suggested as being still too favorable to certain special interests.

2. *Fair to Sailors*

a. Gives Americans employment as officers. The United States needs able sailors as a

reserve to fall back upon in time of war. There is nothing in the plan suggested which could operate in any way other than to increase the number of American citizens engaged on board sea-going vessels. It is not proposed to repeal the American law requiring all officers of American ships to be American citizens. With this law in operation every large vessel coming under the American flag increases the demand for American officers, and so creates a large body of especially efficient American navigators.

b. Gives Americans employment on vessels under contract. The Postal-Aid Law of 1891 requires that a certain proportion of American citizens be employed on vessels receiving its benefits, so that a number of Americans would thus find employment on the fast, high-class vessels under government contract. Many of these sailors would probably stand by their ships when called for naval duty.

As the American merchant marine increased, the demand for American sailors would do likewise, for an American owned and operated vessel with American officers, as before suggested, is far more apt to have Americans in her crew than is a foreign ship.

3. *Would Materially Aid American Shipowner*

a. By enabling him to buy cheaply. The shipowner would also receive immediate and considerable benefits from this policy. In the first place he would be able to buy his ships in the cheapest markets. The original expenditure upon which his returns must show a suitable income would be no longer far in excess of that of his competitor. The first great handicap would thus be removed.

b. By giving him benefit of subventions to mail vessels. The shipowner would also have any benefits which might accrue from the application of the policy of subventions as outlined in the law of 1891. While he must render an equivalent in return, he would be placed more nearly upon a footing of equality with the foreign owners of mail vessels and fast liners.

c. By giving him preference in obtaining home cargo. The great advantage to the American owner would be the one which he would have in securing a home cargo. Having obtained a cargo to some country which has no adequate merchant marine of its own, he would be assured of a decided advantage over any foreign carrier offering

to carry goods from that port to America. The shipper would necessarily have to give him the preference, thus furnishing the home cargo so difficult at times to obtain.

Take the case of an American vessel carrying goods to China. The Chinese shipper would naturally give the American vessel the preference over that of any other nation, since otherwise he must pay an increased duty. There would be no reason for the Chinese to place any restriction upon the American vessel, because none would be placed upon a Chinese vessel coming to America. The American shipowner would therefore have a preference for the home cargo without laboring under any disadvantage as concerns the outward shipment.

A direct grant seems more attractive to the shipowner, but when he considers that at best that grant would be temporary, that the home shipbuilder would appropriate just as large a part of that grant as he could possibly do under his present monopoly, and that subsidies given to his competitors would enable them with their present advantages so to reduce prices as to deprive him of any advantage given by the government's grant, he might well question whether a subsidy alone would give him the net advantage received under the policy outlined.

The Riverside Press

CAMBRIDGE . MASSACHUSETTS

U . S . A

